The protective tariffs of 1879: "National Policy" in Canada and Germany as a means of political and social control.

Suzanne Zeller

University of Windsor

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THE PROTECTIVE TARIFFS OF 1879:
"NATIONAL POLICY" IN CANADA AND GERMANY
AS A MEANS OF POLITICAL AND SOCIAL CONTROL

by

Suzanne Elizabeth Zeller

A Thesis
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through the Department of History
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ABSTRACT

THE PROTECTIVE TARIFFS OF 1879:
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This paper considers the role of the protective tariff in Canada and Germany in the 1870s. It is hypothesized that three common factors provide a basis for a comparative study. The movements toward national unification in the 1860s, the ideology of material progress and national power, and the predominant role of a conservative political leader hence determine the structure of the thesis.

Chapter I is the introduction, and explains the rationale for the comparative approach to Canadian history, and also the basis for the comparison in terms of international trade theory. Chapter II considers the relationship of free trade and protection to the movements for (and accomplishment of) national unity in Canada and Germany, and the role of the ideology of progress in this common point of congealment. Chapter III deals with the crystallization of the ideology of progress in practical terms, that is, in the level of discussion forced by the onset of the worldwide economic recession. Chapter IV begins the emphasis upon the political aspect by comparing the conservatism and the political situations of John A. Macdonald and Otto von
Bismarck in the 1870s. Chapter V considers the debate in the House of Commons and in the Reichstag, particularly the dilemma faced by liberal elements by 1879. Chapter VI examines the general protectionist mentality of the late nineteenth century, with special reference to Canada and Germany, and includes a short discussion of the protective tariffs legislated in both countries in 1879. The conclusion is Chapter VII.

The debate over these protective tariffs is seen as representative of a more pervasive concern over the role of the state in the economy, but moreover in Canada and Germany, both newly federated national entities, as an instrument effective in deciding how the nation itself was to be created, that is, consolidated in tangible terms. As such, the political and social ramifications of the protective tariffs were the expression of what the political victors thought the nation should be.
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CHAPTER I

INTRODUCTION

To unite populations so widely separated, is more than can be accomplished by a paper constitution. Nothing but the bonds of commerce can bridge over the space that divides us, and can make us one.¹

This study attempts to consider in certain particular terms the problem of the relationship of the state to the nation. The protective tariffs legislated by both Canada and Germany in 1879 represented national questions much more complex and far-reaching than the economic sphere. They were the particular responses of two newly federated national entities to the problem of national existence. The conflict was between various conceptions of what the nation was to be, and in what form of a state the nation was to seek the expression of its fulfillment; it cut across traditional allegiances, both ideological and political, and was instrumental in defining the difference between "conservatives" and "liberals" in tangible terms which saw an end to old coalitions. In both countries the concrete struggle manifested itself between a high-cost and a low-cost economy, but actually was to force

¹R. G. Haliburton, Intercolonal Trade Our Only Safeguard Against Disunion (Ottawa: G. E. Desbarats, 1868) p. 16.
decisions on the political and social levels as well.

Industrialization everywhere means increase in the volume of fixed capital, it means changes in technology, economies of scale, transformation of agricultural laborers and small artisans into factory workers; it means appearance of men, willing and able to exercise the entrepreneurial function.²

Alexander Gerschenkron has hypothesized that "... the more backward a country, the more likely its industrialization was to proceed under some organized direction; depending on the degree of backwardness, the seat of such direction could be found in investment banks, in investment banks acting under the aegis of the state, or in bureaucratic controls."³ He observed the "tension between the actual state of economic activities in the country and the existing obstacles to industrial development, on the one hand, and the great promise inherent in such a development, on the other," as a precondition. For "no industrialization seemed possible, and hence no 'tension' existed, as long as certain formidable insti-

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³ Ibid., p. 44.
tutional obstacles (such as serfdom of the peasantry or the far-reaching absence of political unification) remained.\textsuperscript{4} A necessary catalyst was the "spiritual vehicle" of an industrial programme, a faith "that a golden age lies not behind but ahead of mankind."\textsuperscript{5}

Neither Canada nor Germany in the 1870s appears to have contradicted these generalized conjectures. Certainly in Germany, and it seems in Canada as well, "the lack of a preceding political revolution and an early national unification rendered nationalist sentiment a much more suitable ideology of industrialization" than any Saint-Simonian social doctrines\textsuperscript{6} such as those prevalent in the France contemporary to them. Moreover there is the question of national unity, which for both Canada and Germany was realized, at least in political terms, at a time when reaction was setting in against "the liberal and democratic principles which, springing from the eighteenth-century Enlightenment, had seemed up to that moment to be winning ever fresh victories."\textsuperscript{7} Material progress


\textsuperscript{5} Ibid., p. 24.

\textsuperscript{6} Ibid., p. 25.

was changing the world ever more rapidly after 1840; the new technology of railways and industry soon came to have political and social repercussions as well.

Now materialism in science produced such magnificent results in practical life that to the men of the late nineteenth century those results seemed tantamount to a proof of the system. Thousands of miles of railway track, millions of yards of cloth, unlimited steam power, iron and steel machinery, devices of instant communication, and the multiplication of innumerable conveniences for the benefit of mankind -- all struck the imaginations of men so forcibly as to make any question of the materialist assumption look like superstitious folly. 8

The exchange value of the political currency inherent in the economic depression of the 1870s did not go unrecognized for long. Both John A. Macdonald and Otto von Bismarck were shrewd pragmatists, each of whose need to re-establish the basis of his own political power by the mid-1870s found expression as the quest for a tangible consolidation of the national entity. In conservative attempts to harness the social and economic forces engendered by the new industrialism, and to reconcile these with the commercial and agricultural status quo, the protective tariff came to symbolize a larger "national policy" which purported to provide "protection", and easily meant all things to all people. The claim to protect the

nation from foreign intrusion in many ways found its contradiction in the simultaneous claim to protect social and economic classes from one another.

The simultaneous institution of industrial and agricultural tariffs was in both Canada and Germany a novel development, ostensibly to eliminate the alleged dichotomy between industry and agriculture, hence to symbolize the unity of purpose within the nation, the furtherance of the national interest, whatever the term really meant. The conservative ideology, much more than the liberal, had room to embrace even the working classes, who would in economic terms have been unlikely supporters of a protective tariff, especially for agricultural products. In both Canada and Germany various degrees of labour legislation reflected a conservative attitude of paternalism which succeeded, at least temporarily, in tying the workers to the conservative view of the state.

The notion of protection was in both Canada and Germany a sign of a pervasive mentality which encompassed not only protective tariffs, but railway policies, patent laws, population policies, and even foreign policy, especially as far as trade treaties were concerned. Trade policy provided a battleground upon which was being decided the entire question of the direction "national policy" was to take. The protective tariffs represented the reduction to its lowest possible terms of the complex three-
facetted problem of national unity, material progress, and political power, versions of which both Canada and Germany experienced contemporaneously in the 1870s. But the political factor was that upon which hung the other two, and consequently what was ultimately passed off as the national common denominator was in actuality a false dichotomy between free trade and protection.

Once conservative elements took up the political banner of tariff protection, their opponents, often of a more liberal vein, were automatically branded as free traders, though this was in practice almost never an accurate designation. Whereas what should have been discussed was perhaps the individual heights of the proposed tariffs, as much as whether or not in a broader sense to have tariff protection, the latter was accorded precedence in both the Canadian and the German developments. In consequence of the attempt to answer the much more vague question, the implications of the political decisions of 1878-79 were themselves oversimplified and distorted; the question of the tariff was put to the nation in terms of "to be or not to be". In the House of Commons in 1879, the Minister of Public Works, Charles Tupper, declared of the Liberal-Conservative Party:

... from one end of the country to the other, we have openly put it before the country as a question of public policy from which there was no escape, that
either this country must go to ruin, or that there must be a radical reconstruction of the tariff. 9 That a similar defensive, at times even alarmist, attitude was widespread in Germany can be seen in the arguments of industrialists, especially before the Commission to investigate the iron industry. 10 Politically it was the liberal elements who suffered from the overlap of conservative with industrial interests; socially it was the agricultural and working classes who in the long run were being used by commercial and industrial elements to further the interests of the latter two, who did not always agree among themselves, either. In the nineteenth-century national power in a Western sense came to have as its prerequisite material progress, which in a tangible sense meant the development of railways and heavy industry. Not only was "the moral influence of the iron civilizer upon the old inhabitants . . . bringing a rapid 'change over the spirit of their dreams'" , 11 but


10 Germany, Eisen-Enquete-Kommission, Protokolle über die Vernehmungen der Sachverständigen durch die Eisen-Enquete-Kommission (Berlin: 1879).

the practical necessity seemed to follow for businessmen to "combine in associations or corporations to undertake the enormous responsibility"\(^{12}\) of effecting such progress. Furthermore, it was felt by sympathizers that "inventions could not be trusted to ordinary men or conventional procedures. A whole new class of professional men had to be created within the social system to mediate the inevitable struggle between intentions and temptations."\(^{13}\) Such collective notions did not seem compatible with an ideology which valued individualism as a primary axiom; supporters of liberalism in both Canada and Germany suffered political setbacks in their inability to resolve this dilemma. The overriding result was their failure to have a hand in the decisions of 1878-79, in the creation of the national policies which served to define the future existence of the nation, albeit never exactly as the creators would have intended, either.

There are both absolute and relative factors which determine the rationale as well as the mode for such a study. The writing of Canadian business and economic history has always been divided between themes of conti-

\(^{12}\) H. V. Nelles, ed., introduction to "Philosophy of Railroads" and Other Essays, p. xxix.

\(^{13}\) Ibid., p. lvi.
nentalism and nationalism,¹⁴ those two supposedly opposing forces which appear to dominate our political history as well. If the overwhelming American presence to the south makes our history unique in that it has always had such a hold on us, one must ask what factors there are which have allowed Canadians as a nation even to have a history to write about. It is indeed no new question to ask what has made Canada a nation; certainly not common language, nor common religion, nor common ethnic origin, nor geography, and at Confederation, not even a common historical tradition. Yet the historical evidence is abundant that "Canadians have both thought and acted like contemporary nationalists in other countries."¹⁵

A comparative approach to the study of national history would thus provide a natural source of interest even in the Canadian context, but while American historians


have neglected it almost totally, Canadian historians have been rather myopic in choosing the horizons of their comparisons. Perhaps even more than in the American case, where an "emphasis on uniqueness and distinctiveness became an important means of asserting and defining the national identity," there has arisen in Canada a dilemma which runs as a thread through Canadian historical writing; we profess to desire independence from American political and economic influence, yet we have seldom seen ourselves except in relation to those influences and the problems they cause in our relationship with the Mother Country.

The study of national history by comparison with other national histories serves not only to acquaint the foreigner with the subject, but also to bring into focus the relevance of one's own history, aspects of which can often be seen as varieties of historical experiences common to other nations in parallel times and/or circumstances. There results an awareness which would "revise complacent assumptions of national exclusiveness, uniqueness, or excellence; . . . reconsider commonplace myths and flattering legends; . . . and lend scrutiny to traditional assumptions," perhaps eventually to relieve the pa-


17 Ibid., p. 5.

18 Ibid., pp. x-xi.
radox of historical parochialism Which dominates North American historical writing even in our century of cosmopolitan involvement. 19

To be of any real benefit at all, comparative history should be fair and it should be meaningful. 20 While it remains one of the greatest weaknesses of writing exclusively national history that the narration is allowed to play itself out against a backdrop which is none too clearly defined, this is one historical problem which can be solved methodologically by comparing the histories of two or even three nations in a certain epoch. 21 As the complexity of such an undertaking would by definition extend into added dimensions, it would become necessary to limit carefully the scope of the subject matter by some appropriate criterion. Yet it seems just as important to give the subject enough leeway, enough breathing space, to be meaningful. Furthermore, as contrasts and differences are an essential part of comparative analysis, 22 it is most desirable (and only fair) to acknow-

19 Ibid., p. 3.


ledge these differences as their relevance necessitates.

Craig Brown sees the Canadian National Policy as an example of his contention that, within the framework of their concern more with the everyday problems of government than with political theory or philosophy, the thoughts and actions of Canadian politicians have been "decidedly nationalist in character". But his reference to the National Policy in comparison with policies of "other countries" as a "materialistic policy of bigness in an age when expansionism appealed to nationalist sentiment" appears to peter out at the border; the Canadian National Policy was apparently "in most respects a duplication of a similar 'national policy' designed for continental expansion in the United States".23 It shall be the contention of this study that by choosing judicially there can be constructed an analysis of the development of the Canadian National Policy which is both fair and meaningful, and which furthermore takes issue with the notion that North American exclusiveness is a necessary as-

23 Brown, "Nationalism of the National Policy," p. 156.
sumption in the approach to Canadian history. In terms of Canadian history and the writing of it, this is seen as an absolute factor in the rationale behind this undertaking.

Furthermore, there are relative factors which make the juxtaposition of Canadian and German history in the latter half of the nineteenth century not absurd, but quite reasonable. The following chapters are intended to present some of these points of comparison under the three general classifications of national unity, material progress and the stimulus of the depression of the 1870s, and the domestic struggle for political power. It is felt that the particular argument becomes more meaningful if it is preceded by a brief discussion of the wider context.

In its narrow sense, the Canadian National Policy denoted the system of protective tariffs adopted by the Canadian government in 1879. In its broad sense, the term denotes the "general strategy of defensive expansionism adopted by the federal government after 1867", a plan which entailed the "dawning of the newer conception of


transcontinental expansionism,\textsuperscript{25} a revision of the older conception of the St. Lawrence as an artery of trade for the mid-west. At its heart in this broader interpretation the National Policy had a determination to strengthen Canada on its east-west axis by the construction of a transcontinental railroad. By 1878 the protective tariff was being firmly laid as the second foundation stone\textsuperscript{25} of this National Policy; it is with the inherent assumptions of Canada's nation-builders regarding the necessity especially of the tariff aspect of the National Policy, and the roles to be played by industry, agriculture, and commerce in their contribution to the Canadian nation-building process that this study proposes to deal.

Though it is often asserted that in imperial Germany economic growth was induced by the government, and it is true that the German government did pursue a vigorous economic policy in the forty years before World War I, it is actually more meaningful to know that "its over-all intervention in the free market was not more extensive,


\textsuperscript{26} Ibid., p. 102.
and perhaps even less so, than that of most Western governments at that time. Much of the consequent legislation of the 1870s was aimed toward building a material foundation for the new national unity, and shall be seen to have been very similar in form and in purpose to legislation during Canada's first decade.

It has been observed that to say there are only free traders and protectionists is to create a false dichotomy; there are both economic and non-economic ends to be achieved by trade policy, and so the scale of values by which trade policy is to be judged must be adjusted accordingly. Non-economic standpoints include national defence, social justice, irrational postulates including religious motives and the fulfillment of national destiny. Economic motives are not as easily judged against any analytic economic ideal, and the problem instantly


becomes more complex.

For instance, the quest for the improvement of national income becomes not a question merely of absolute size, but of the mode of its distribution among the sectors of the population and the various individuals concerned. In fact, the criteria for judging the distribution vary widely according to the ends desired. The distribution of the total income of the territory among the several regions involves a choice between cosmopolitan and nationalistic aims. But a "functional" distribution may be made among classes and occupations. A distribution of income among individual persons may be made within these classes, and can be altered without changing the distribution among classes and occupations. There may be 'a distribution of the social product over time, which includes the infant industry argument for tariffs. A distribution with regard for the stability and security of income, though, would guard against the evaluation of "national income" as an average of high and low incomes.31

But moreover it is of interest to us that the generally accepted theory of international trade, among the better known of which is Haberler's work, cited above, appears to be largely based upon the experience of Germany after 1880, at least because Germany constitutes

31 Haberler, Theory of International Trade, pp. 216-17.
a ready example of a major power which made the transition from near free trade to a policy of tariff protection, and by the 1930s had had enough time to allow the consequences to play themselves out. Hence any attempt to apply the theory of international trade as a criterion for Canadian policy cannot avoid a comparison with post-1870 Germany.

In an economic sense, the comparison is necessary; in a historical sense, it can certainly be fruitful. Not only will the preoccupation of much of Canadian historical writing with the exclusiveness of North American history be escaped to some extent through the establishment of other viable frames of reference, but the Canadian example proves to be surprisingly comparable. The arguments which Gottfried Haberler discussed were, more often than not, present in the Canadian debate over the issue of tariff protection. This shows not only the value of the theoretical generalizations, but also that there were Canadians too whose thinking was based on sound economic foundations, though they may not have been fully aware of it. Of course the invalid arguments were present as well.

Arguments in the controversy over free trade versus protective import duties have echoed in similar fashion even to the present date. Haberler points out that it has frequently been overlooked that a priori there are no valid assumptions which support a neglect to consider
the advantages of export bounties (and duties) over import duties (and bounties). Generally, for each deviation from "ideal" conditions, namely from free competition and the absence of external economies, there can be claimed a theoretical justification for some tampering with the free flow of goods and services, usually in the form of an import duty. Yet the economic theorists argue that an export bounty might in some cases be as effective, though perhaps politically less appealing.\textsuperscript{32}

Haberler classified the general arguments for free trade as follows. Obvious is the presumption that free trade is advantageous, i.e., that the price mechanism under competition automatically ensures a natural international division of labour which is of benefit to all countries. Therefore, it is concluded, the social product must be damaged whenever the free play of economic forces is disturbed through interference such as a tariff, since "the factors of production are retained in an employment where their marginal productivity is smaller."

Secondly, it is argued that, since everyone is a consumer, free import benefits everyone by lowering the

prices of imported goods. But these should logically desire export duties, since the increased difficulty of exporting would result in decreased prices of exportable goods in the exporting country.

Thirdly, some see free trade as preventing monopoly because costs would be kept down, markets expanded, and efficiency increased by competition. But it can be countered that free trade does nothing to prevent either the monopoly of a national market by a foreign producer or local monopolies subject to transportation costs.

The object of free trade is said to be the maximization of the national income, so that though there is a psychological affinity between free trade and internationalism, a cosmopolitan viewpoint is not essential to the free trader. For in economic cases for free trade it does not necessarily follow that a profit for one nation implies a loss for another. A powerful political argument for protectionists against "free traders", though, was the presumption of the superiority of their own patriotism.

Arguments for tariffs are somewhat more complex, since so are their manners of application and their results. Directly, an import duty increases the price and

33 Haberler, Theory of International Trade, pp. 221-25.
production while decreasing the sales of that good in the importing country, while an export duty decreases the price and production while increasing the sales in the exporting country. Indirectly, the tariff displaces the stream of demand and reduces exports, thus changing the structure of the economy to some degree. The manner in which revenue from the duties is spent by the State determines additional effects. Drawbacks compensate somewhat for tariffs, "but in particular the damage to export industries through the play of the monetary mechanism is not avoided". 34

Revenue duties are those whose primary purpose is to provide the State with revenue in a special form of taxation imposed when goods cross the national frontier instead of on wholesalers or retailers. Protective duties are intended rather to maintain and encourage certain branches of the home industry. The distinction is not at all clear-cut, but paradoxically the two types of tariffs are largely incompatible. In general,

if the home production bears the same taxation as similar imported goods, or if the good is not produced at home, even after the duty is imposed, and if there is no similar home-produced good toward which demand

34 Ibid., pp. 233, 236.
is diverted, then the duty is not protective. 35

General arguments for tariffs can be non-economic or economic, as has already been seen, but there are many particular arguments, some of which Haberler says economically do not merit serious discussion, but which carry the greatest weight in parliaments and with public opinion. Tariffs intended to expand the production of the protected industries are known to be followed by a decrease in production elsewhere, usually greater than the increased production in the protected industry. Tariffs instituted to create and expand a home market, he says, result in a corresponding contraction of the export market. That tariffs increase purchasing power is by no means guaranteed.

One of the major arguments of the 1879 protective tariff controversies in both Canada and Germany was that tariffs can protect the entire national production, but the catch-word of national solidarity was less an argument than a phrase of great psychological and political effectiveness. Tariffs used to balance trade conditions are not necessarily successful, for importing capital may actually worsen the future trade balance. Tariffs intended to serve as retaliation against foreign tariffs deny Haberler's contention that one-sided free trade is pos-

sible, at least economically, though perhaps creates po-

tical difficulties. And rather than tariffs estab-

lished to maintain the level of wages, it would be more

logical to tax immigration. A further argument is that

tariffs would counteract the lower costs of foreign coun-

tries and help to compete on a 'fair' basis; in other

words, tariffs might be intended to create 'free trade'.

Tariffs advocated to combat unemployment can be

advanced only from a short-run standpoint; to import the

means of production, tariffs would not be suitable, in

general and in the long run, to maintain a population.

As a means of developing infant industries, Haberler

continues, tariffs always shelter less efficient con-
cerns, and hence this argument is usually a pretext.

As a brake against the development of an unbalanced eco-

nomy which exports manufactures, tariffs in the long run

provide no solution. As a means of improving the terms

of trade, tariffs cause the foreigner to pay the duty

only if decreased demand causes the price to decrease by

the amount of the tariff. To prevent dumping, tariffs

are effective only when they are prohibitive.36

Where the Canadian situation provides exception to

these economic theories, there can perhaps be located

differences in the two economies, especially in the stage

36 Ibid., pp. 240-91, 324.
of their development in the 1870s. The theory crystallizes these differences for us.

As for the method which would best do justice to this type of study, the primary decision has been to attempt to escape as far as possible the bias of preconceived notions, which are so easily imposed in the comparative approach, by allowing the material to act as guide. An obvious limiting factor is that no amount of research can ever exhaust these two particular eras in Canadian and German history. But the attempt has been made to determine the major 'wind directions' of the available sources, and it seemed that once a certain amount of work provided a skeletal outline, additional research served only to confirm it. Three forces of national unity, material progress, and political power were interlocked to such an extent that it appeared necessary to approach the study accordingly, allowing predominance to the political, with its social ramifications.

A chronological approach would not only have given stress to developments in both countries which are already well known and basic to the national histories, but would also have given undue emphasis to the year 1879. It is by no means the reflection of a causal relationship that the protective tariffs were both legislated in exactly the same year; the Reichstag was dissolved in 1878 directly because of the attempted as-
sassination of the Kaiser, and in 1878 the government of Alexander Mackenzie had served the limit of its five-year term.

What is of greater significance is the series of similar historical developments which owed their collateral existence not to sheer random occurrence, but to the larger characteristic of the times themselves. The common point of congealment of the two nations as federal entities at a time when it was, in the Western world, popular to move in this direction; the worldwide depression, which not only affected both nations internally within the first decade of their existence, but also brought into focus the discussion of the role of the state in the achievement of material progress; the predominance in each country of a conservative political leader who reacted to the pressures provided by these two factors -- similar solutions to similar problems related only by the times they shared perhaps tell us something of the pervasiveness of the nineteenth-century ideology of national power and progress.

The politics behind the Canadian and German developments regarding trade policy take on a new relevance, particularly in light of the above economic theories. There remains to be seen into what context the circumstances of the 1870s placed the protective tariffs of 1879, and what significance these had in
the national histories of Canada and Germany. The role of the statesman in these national developments, and the roles of Parliament and Reichstag as theatres in the legislative and political proceedings were of considerable significance for the ramifications of the tariff policies. It would first be helpful to consider the relationship of free trade and protection to national unity in both Canada and Germany.
CHAPTER II

FREE TRADE, PROTECTION, AND NATIONAL UNITY

Besides the fact that the historical and cultural differences between a handful of British North American colonies and the conglomeration of German kingdoms, princely states, and independent cities, which were Canada and Germany before their respective federations took place, are both obvious and too complex to warrant discussion here, there would anyhow be little purpose served in doing so. Theodor Schieder has pointed out that it was the Industrial Revolution with all its consequences which for the first time made possible the perception of the world as an entity with regard to politics, society, and civilization. Both Canada and Germany were relatively late participants in this development, and hence both had to deal with the nineteenth-century situation in which movements for material progress and national independence were symbiotic, each unfolding in the context of the other.

The arguments for free trade and protection became convenient in just such a "national" context. While by mid-century the free trade theories of Adam Smith were conquering Europe as far east as Russia, the classical school of liberal economics had reached its apogee and decline in John Stuart Mill, who was more sympathetic to the protectionist view than any other theorist of the liberal school. In his acceptance of protection for the development of infant industries, as long as this protection was "confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it", Mill resembled Friedrich List. Published four years prior to Mill's Principles, List's Das nationale System der politischen Ökonomie (1844) denied Smith's assumption that economically there is a


3 Charles Gide, in History of Economic Doctrines, Gide and Rist, Chapter II.


5 Gide, in History of Economic Doctrines, Gide and Rist, p. 370.
confederation of all nations, by introducing into political economy ideas of nationality and of wealth as productive power, as opposed to Smith's notion that wealth equals exchange values. As Mill's thinking began the abandonment of the doctrine of laissez-faire at a time when there were new industrial problems including socialism and trade unions to be dealt with in England, he developed as a radical and social reformer, the "first distinguished liberal with 'Fabian' leanings". Mill's was an eclectic approach which found it consistent to pick out from conservative doctrine "elements which could be interpreted as critical of existing practices and which at the same time allow for government action in appropriate cases".

Similarly, List's work was written as a product of German circumstances. Unlike Adam Smith, for List industry was a social force, the creator of capital and labour, rather than the result of labour and saving. Protectionism was not intended as a universal remedy, but as a particular process to be used only in certain cases and under

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certain conditions, i.e., to allow the industrial education of a nation, to protect the nation when its progress is hampered by the competition of a more advanced and powerful manufacturing rival, but justified "only until that manufacturing Power is strong enough no longer to have any reason to fear foreign competition, and thenceforth only so far as may be necessary for protecting the inland manufacturing power in its very roots." As Germany was then an exporter of corn, and suffered from the operation of the English Corn Laws, it was perhaps natural for List to add that tariff protection ought never to be extended to agriculture.

So it was neither economic autonomy nor the preservation of the home market, but rather the creation of native industry which was the only justification for the tariff protection of industry in List's commercial policy. List was attempting to define from a purely national standpoint for a given country at a given moment in its history a positive objective for its economic policy. Free trade was seen as an ultimate goal which could be achieved only among nations as equals; protection would thus eventually lead to free trade.

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8 Rist, in History of Economic Doctrines, Gide and Rist, pp. 275-97.

9 Gray, Development of Economic Doctrine, pp. 235, 238.
While List was a representative of nascent industrial capitalism, an apostle of economic nationalism, as a direct result of Germany's relative backwardness before mid-century, it was the historical school which exerted the most potent influence upon German economic thought for the remainder of the nineteenth century. For men like Wilhelm G.F. Roscher, Bruno Hildebrand, Karl G.A. Knies, and Gustav Schmoller, protection and vigorous state action in commerce and industry were necessary in Germany under Bismarck's policy of national construction, for it seemed that the Empire had actively to be consolidated and its economic development promoted. Universal free trade seemed a far-off goal, though both it and protective tariffs were seen to have their uses in various stages of national development. The essence of the new mercantilism was not in the doctrine of money, balance of trade, protective duties, navigation laws, but in something far


12 Schmoller was among the so-called Socialists of the Chair (Kathedersozialisten) who in 1872 founded the Verein für Socialpolitik, a group of influential intellectuals who supported state socialism as an alternative to both Marxism and Manchester liberalism.
greater: ... in the total transformation of society and its organization, as well as of the state and its institutions, in the replacing of a local and territorial economic policy by that of the national state.\textsuperscript{13}

Although the arguments put forth both in Canada and Germany regarding the protective tariffs of 1879 resembled, as we shall see, those of the classicists from Smith on down to Mill and List, the implications of the tariffs themselves involved concepts very different from these and more similar to those of the historical school, involving as they did the protection of both agricultural and industrial products:

A tariff which indifferently protects every enterprise ... and increases all prices at the same time ... is no longer a means of stimulating productive energy; it is merely a general instrument of defence against foreign competition, and is essentially conservative and timorous.\textsuperscript{14}

These were tariff duties determined by compromise between powerful interests, by "purely political, financial, or electoral considerations".\textsuperscript{15} The evidence further shows that the mercantilists were "ordinarily not aware of the

\textsuperscript{13} Ashley, \textit{Modern Tariff History}, pp. 52-55, from Schmoller.

\textsuperscript{14} Rist, in \textit{History of Economic Doctrines}, Gide and Rist, p. 290.

\textsuperscript{15} Ibid.
distinction between long and short run policies"; these protective tariffs did not turn out to be temporary for either nation.

By mid-century a perceptive outsider could note that "were Canada independent, she would establish protection, and then she would retain the immigrant." Within the decade men like A.T. Galt, who in 1858 took the initiative in actively proposing a federation policy which closely resembled that ultimately adopted by the British North American provinces, and who in 1859 was responsible for the enactment of a revenue tariff which was "incidentally" a protective tariff "to aid Canada, not to injure the United States", personified the link between the two movements for national independence and material progress in Canada. Walther Lotz long ago observed that free trade was a prerequisite for German national unity.

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guing with regard to trade policy within the Zollverein after 1834, and his point is well taken with a view to British North American developments, albeit at first in a negative sense. For few measures summed up and expressed the new industrialism and the new nationality more completely and effectively than did the British in the repeal of the Corn Laws in 1846, and for perhaps the first time the British North American provinces were made aware of the separateness they shared.

The world economy was in a short-term upswing for at least three decades from 1840; improvements in crops and machinery demonstrated the prosperity of both agriculture and technology. In Canada the Union of 1840 permitted the elaboration of an economic policy of development pivoting on the financial interests of Montreal and the railway companies, while from 1843 the Canada Corn Act had placed Canadian agriculture on a privileged


footing by admitting Canadian wheat and Canadian-milled flour to the British market "on unusually favourable terms." But this happy scene was soon to change, for in 1846 the spirit of Cobden and Bright succeeded in the struggle to repeal the Imperial preferences. The British free trade policy in 1847 "empowered" the Colonial Legislatures to repeal the differential duties, with the assurance "that by exercising this power you may be enabled to benefit the consumer without injury to the revenue." From the British view, the object of the new policy was to render industry productive, by leaving it to follow its natural channels of employment, and by affording every possible facility to Commerce, must lead to their rapid advancement in wealth and prosperity." Also, in his despatch as Colonial Secretary, Earl Grey would have consoled the British North American colonies for their losses by pointing to the example of the German Zollverein. While the provinces were "being divided only by arbitrary, and in some points still unsettled, lines of boundary," the trade between them was "being burthened by Duties like that


24 Governor-General's speech at convening Parliament, 2 June 1847, in Legislative Council of the Province of Canada, Journals, 1847, p. 15.
between Countries entirely unconnected with each other"; Grey proposed the assimilation of the system of duties levied in British North America, though not without a word of caution:

It is true that in many very important particulars the circumstances of the German States, which formed this [Customs] Union, were altogether unlike those of the British North American Provinces; and that, therefore, what was done in the one case forms no precedent for the other; but still the example of Germany proves that there is no insuperable difficulty in effecting an arrangement by which not merely different Provinces of the same Empire, but a large number of Independent States may combine together for the purpose of establishing a common system of Custom House Duties, and dividing the Revenue which these Duties produce. And further, this example also proves, that in spite of no inconsiderable faults in the mode of effecting such an arrangement, and above all, the great one of having adopted a scale of Duties far higher than is consistent with sound Commercial and Financial views, this Union is admitted to have exercised a highly beneficial influence upon the Trade and industry of the States which belong to it. 25

Though a British North American Customs Union never resulted, in March 1847 the Legislative Assembly of Nova Scotia did pass An Act in Relation to the Trade between the British North American Possessions, offering the other provinces reciprocity in the trade of natural products, and suggesting they follow suit. They in turn found it desirable at least to consider the prospect, though not all

agreed. 26 And though the Province of Canada was in the 1840s perhaps still too agricultural even for a revenue tariff, 27 this step towards developing its own economy was taken in the resulting revenue act in 1847. The revenue tariff was seen not only as a decisive step in both Canadian and imperial tariff history but also, by British manufacturers, as a protective measure because if its condition for reciprocal trade with the other British North American colonies.

Reformers in British North America, as elsewhere, were in theory free traders, but moreover it was "an era when the policy of protection seemed futile to most, including Tories." 28 At most, tariffs were still for provincial revenue purposes, and were still legislated provincially. The removal of the British preferences had indeed begun the continental pull by the 1840s, 29 seen particularly in the An-

26 Statutes, Nova Scotia, 10Vic-c39; New Brunswick, 11Vic-c9; Prince Edward Island postponed a bill in 1848 for reciprocal trade with New Brunswick, and in 1849 preferred a restricted free trade agreement with the United States, 12Vic-c3; Canada agreed to the Nova Scotian proposal by 10 and 11Vic-c31, clause III; Newfoundland resolved to consider the issue in 1848.


28 Ibid., p. 109.

nexation Manifesto in the economically bleak year of 1849. But in general the British North American colonies still "rejoiced in their individuality and independence," even, and perhaps especially, from one another.

Similar attitudes could be seen among the German states, for even by the 1860s the Zollverein "had made scarcely a dent in the traditional political hostility" which was a manifestation of the sharpening north-south struggle for the domination of the entire German territory. Whereas earlier proposals for German unification had "always included economic unification as a byproduct of political unification" it was these very economic ties which seemed to be shifting the political balance in favour of Prussia and toward the elimination of Austria from the German national scene. As in British North America to the 1860s, "primarily political ideologies and not economic rationalism determined the extent of such [an economic]


unification.\textsuperscript{33} In both cases, a kind of particularism, or provincialism, was prevalent enough so as to have evaded any closer connection among the provinces or states, while at the same time avoiding any such unification with non-British or non-German neighbours, even though at times the American and the Austrian pulls were great.

The passing of mid-century brought a new era to the industrializing world with the coming of the railway, which seemed to symbolize the coming of an age of prosperity for both industry and agriculture. Material prosperity, progress, and a mood of optimism\textsuperscript{34} were the realities of the day, though the downgrade of an economic "long wave",\textsuperscript{35} which was to continue to 1896, had just begun.

In Germany too the process of economic transition was still subtle. The territories of the Rhineland and southern Westphalia, next to Saxony a most important industrial centre among the German states, had witnessed through the

\textsuperscript{33} Ibid., p. 255.

\textsuperscript{34} For an analysis of a Canadian expression of this "faith in the capacity of technology to promote commerce and civilization", see H.V. Nelles, ed., introduction to "Philosophy of Railroads" and Other Essays by T.C. Keefer, pp. ix-lxiii.

1850s and 1860s the prosperity of a true interdependence between industry and agriculture, for the surrounding farmlands were able to supply the industrial areas with all necessary foodstuffs, without imports. But the situation was already reversing itself, though almost undetectably, with rye having to be imported into Germany later in the 1850s, and wheat soon to become a necessary import too.

The "sudden leap into a dynamic society dominated by industrial capitalism was of such startling dimensions as to present an unmistakably transformed situation to contemporary liberals"; the striving for freedom became for the increasing urban population, the aggressive entrepreneurial group, and the peasantry-turned-property-owners a search for the particular, the tangible, and the concrete. Political attitudes were reoriented toward the forces which could realize the desired liberal reforms, but the free trade movement which was often identified with this liberalism created an inherent dilemma within the German liberal creed.

36 Hardach, Bedeutung wirtschaftlicher Faktoren, pp. 111-14.


Not a "natural" movement as in Britain, where big industrialists and workers were its supporters, free trade was in Germany supported by writers and politicians, and by exporters, mostly in the northern trading centres and in the east-Elbian agricultural lands of the north; the south remained protectionist.\footnote{Lotz, Ideen der deutschen Handelspolitik, pp. 13-16.}

The main point to be made here is that in either case it was the prestige of the state in Germany which benefitted, for the peculiarities of nineteenth-century German liberalism had their basis in "older national assumptions which made the idea of liberty not the polar antithesis but the historical associate of princely authority."\footnote{Krieger, German Idea of Freedom, p. 5.} Free traders who sought support from either the political left or the political right thus sought support from above, from the state. The prestige of the state in Germany, even at mid-century, was equalled neither in France nor in England.\footnote{Lenore O'Boyle, "The Problem of an Excess of Educated Men in Western Europe, 1800-1850," Journal of Modern History 42 (December 1970): 478.}
supported religious equality, i.e., the majority of the Protestant churches, "found their strongest ally in the concept of a non-religious statism"; the state was to be a "collective parent" in the movement toward individualism and away from the domination of any one church. In the economy too the state was becoming a practical means of achieving the material goals of colonial capitalists against the potential domination of capital from external sources, both British and American.

Wheat could become a staple product if railways would provide accessibility to markets; the 1850s saw this dream becoming reality. The undertaking of massive railway building projects necessitated government assistance, at first financially, to guarantee the interest on the bonds of the railway companies. Railways brought business and politics together, and the personal connection of many British North American politicians with the railway companies is well known, particularly in the cases of A.T. Galt and G.E. Cartier.


With its power to supplement the all-important waterway and even to modify its functions\(^4\) as the physical backbone of any conceivable type of Canadian "nation," the railway both solved older problems and raised new ones. If British North American producers were to gain access to markets, which markets were these to be? The Reciprocity Treaty with the United States in 1854 was certainly a reinforcement of the southward pull. But Galt's defence of the protective aspects of the tariff of 1858-59 (22Vic-c76), despite the fact that this protection of domestic manufacturing was only "incidental" and Canadian manufacturers were in fact more exposed than before, did connect the success of railway policy with tariffs,\(^5\) and moreover argued successfully that tariff autonomy was implicit in responsible government.\(^6\) Just as List had in the German con-


text linked tariffs and railways to show their significance in the development of a national entity, a connection the importance of which Bismarck was by no means unaware, the significance of these physical links for the Canadian nation cannot be overestimated. For "it must be emphasized that the national policy of tariffs and railways pre-dated the creation of a national government in Canada and envisaged the establishment of such a government as one of its indispensable interests." Whereas in Germany by the late 1860s the free trade doctrine had become so popular that it was not considered proper even to suggest that a protective tariff in any way presented a viable alternative, developments in British North America forced the issue into less doctrinaire and more practical terms. Political deadlock in the united province of Canada West and Canada East; the fading likelihood of the renewal of the Reciprocity Treaty; the


end of the era of the continental fur trade and its potential replacement by continental agriculture; the completion of improved American transportation, and the building of the Canadian St. Lawrence canals and the Grand Trunk Railway; the resulting provincial debts and constitutional difficulties; the rejection of British North America by Britain in questions of imperial economic integration and imperial defence; all these issues seemed to force the British North American provinces into a stance of self-defence, and a greater whole was thus to be created, almost by default.

Transportation, trade policy, and an intangible sense of separate identity in their common 'British North Americaness' were all somehow related. The nature of this relationship is perhaps exemplified in the observation that it was more as a concession to the Maritime provinces than out of any blind Cobdenite faith that the tariff was at Confederation reduced to a level lower than the Canadian one had previously been. Apparently, trade policy was a function of some other more predominant criterion.

In Germany the conviction for free trade ran much deeper as long as a theoretical free trader like Rudolf

von Delbrück was President of the Federal and Imperial Chancelleries (from 1867 to 1876) and Otto von Camphausen was Minister of Finance (from 1869 to 1877). Free trade pervaded in spirit at least from 1865,\(^{51}\) though strains on the economy began to show already after 1864, when Germany lost to the United States her position as the granary of Britain. Even during the prosperous years to 1873, grain prices did not increase parallel to the rise in industrial prices.\(^{52}\) But while prices still rose at all, the influential German landholder remained an adamant free trader. And in contrast to the English tradition which placed less emphasis on formal education as a means of upward mobility, "the German universities in modern times had been founded expressly for the purpose of training state officials . . . and were controlled and supported by the state";\(^{53}\) in all of these universities, political economy was taught almost without exception from a free trade point of view. In fact, even the majority of the big

\(^{51}\) Hardach, *Bedeutung wirtschaftlicher Faktoren*, p. 50.


German newspapers in this era were controlled by free traders,\(^{54}\) so that the general pervasiveness of the free trade doctrine in Germany perhaps exceeded that in Canada.

Economically, the Canadian Confederation had been an instrument of public finance for the fundamental project of growth which included the opening up of new regions to agriculture and forestry, and the development of "national industry", which necessitated the development of an abundant work force. Two basic assumptions underlay the scheme: that one economic sector could be nurtured for the benefit of all and for a harmonious development along parallel lines; and that the above three economic functions were closely related, since because of their resources and special advantages, the geographic regions of Canada were supposed to complement one another. Railroads were to provide the link between the economic sectors, and moreover "would constitute a pole of industrial development, encouraging investment in iron-smelting, metallurgy and mining and, by extension, in all other sectors of production". As a social institution which "reorganized all the aspects of the collective activities of the country," "Confederation, in the form it took, was made possible through the domi-

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\(^{54}\) Carl Kolb, Freihandel und Schutzzoll: Vortrag, gehalten in dem polytechnischen Verein zu Bayreuth (Bayreuth: Verlag von Carl Gietzel, 1878) p. 44.
nation of the financial and commercial upper middle class over the lower middle class.\footnote{Dubuc, "Decline of Confederation," pp. 114, 116, 120.} This "national community" was to be no populist democracy, but monarchical; all the Fathers of Confederation disapproved of universal manhood suffrage,\footnote{Frank Underhill, "Foreword," in Nationalism in Canada, ed. Russell, p. xix. For an extensive analysis of this issue see Bruce W. Hodgins, "Democracy and the Ontario Fathers of Confederation," in Profiles of a Province, Ontario Historical Society (Toronto: Ontario Historical Society, 1967) pp. 83-91.} and the union itself was imposed from above.

From an economic standpoint, Confederation was no real watershed in Canadian development, just as in Germany the Reichsgründung brought no caesura; rather the period from the mid-1860s to about 1876 must be seen as a unit.\footnote{Helmut Böhme, "Bismarcks Schutzzollpolitik und die Festigung des konservativen Staates," in Probleme der Reichsgründungszeit, ed. Böhme, p. 329.} It was the use of the subsequent tariff policies in upholding the Canadian and German federal unions which determined the new economic era.

There has been posed the interesting question "how it comes about that modern industry, with its characteristic technology and processes, varies only insignificantly from one country to another, despite wide political and cultural differences". The fact that a common result is achieved shows that "in each national society the diverse
elements which may facilitate or hinder industrialization and growth are finally adjusted to each other so as to make rational economic progress possible". It is the secular state which is the agency that brings about these necessary adjustments by public education and by developing and utilizing a suitable legal and administrative system. In fact, when a new state is being constituted, "integrative problems come to the fore at once, and these are followed by goal-attainment problems" which require an induced pattern of growth, that is an increase in the active role of the state in the economy; when these problems are solved, "individuals become free to satisfy private adaptive needs as they choose", and a more autonomous pattern of growth becomes obvious, at least until the next crisis.

The Canadian situation lends support to the general thesis that a search for national security always strengthens the economic role of the state, a fact not appreciated by the United States until 1917. Since throughout the nineteenth century the minimal requirements for the development of an industrial economy were not met nearly


59 Ibid., p. 372.  60 Ibid., p. 359.
as early in Canada as in the United States, the role of the state tended to be larger in the former, and more direct than in Australia, whose states were not federated until well after 1900, and whose location placed it farther from sources of population, from capital, from markets, and from the borders of economically powerful neighbours. 61

The German states to 1871 were a "nation" lacking the security of a state. Their independent existence in potential danger throughout the century, the victory at Sedan in 1870 had only increased the fear of a French revanche. But even after the establishment of the Second Reich in 1871 the problem of internal integration was not solved, for there remained the question of local autonomy, the problem of anticentralist sentiment, and centrifugal political tendencies 62 to be dealt with. The problems caused by several recalcitrant southern German states resulted in constitutional concessions to induce them into the Reich; this could not but help "to preserve a climate in which particularism would remain respectable", so that the "development of national loyalties could only be slowed as a consequence". Indeed, "few Germans regarded these fe-

61 Ibid., pp. 358-59.

deral arrangements as wholly satisfactory in 1870-1. 63

Unlike the contemporary Italian situation, in Germany there was even a question over which territory and over which peoples the new German state was to extend. 64 Analogous perhaps was the Canadian circumstance of the 1860s. There Confederation was a victory for the more conservative elements, later the Liberal-Conservative Party, who adjusted themselves to the "Larger Scheme" while the Grits, the Upper Canadian sectionalists, had opted for the "Lesser Scheme" which would have excluded the French problem of Lower Canada. 65 In Germany, though, there resulted a kleindeutsch victory in the struggle of various degrees of liberals against the even more conservative grossdeutsch elements. While the Austrian 'foreigner' was eliminated from the German sphere by 1866, the French Canadian was absorbed into Canadian partnership one year later.

But the fact that there did occur some sort of


German unification at this time made possible "an increased concentration on the attainment of systematic goals, and only the effective resolution of the integrative phase permitted Germany to enter its expansionist phase."66 later. It is this period of integration which occurred simultaneously for both the German and the Canadian nations. Sir John A. Macdonald's National Policy is in its broad sense certainly the key to understanding the popularized Canadian concept of nationhood during Canada's formative years, just as the decisive period for the German Reichsgründung "must be pushed forward from the mid-1860s to the second half of the 1870s", in order that the proper perspective may be achieved with regard even to the role of Bismarck and his foreign policy, "especially by resisting the tendency to exaggerate it which has marked the writing of German history since the days of Sybel and Treitschke."67

Keeping in mind as a precaution the thought that "in general models of economic growth much of the variety of the historical experiences of the countries which underwent economic development is lost",68 one may perhaps

still venture to observe the material concerns which for both Germany and Canada designated the legislative tasks of the 1870s. The consolidation of the German national entity involved in its tangible aspects the standardization of currency and of legal codes, the fixing of the defence budget, the adoption in 1873 of the gold standard, the establishment in 1875 of the Reichsbank, the development of the patent law on a national basis, and most significant for the interest it sparked regarding the role of the state in the creation of the nation, the adoption of a protective tariff in 1879.

Canadian concerns were parallel, including the patent law of 1872 and the focus upon the protective tariff in the latter 1870s. While a gold standard with American units of account was adopted in 1853 after little argument, discussion of public policy in the 1870s centred on these changes in the tariff. But it shall be seen that this was just one issue among several within the more complex problem of protection.

The plan for a National Bank System was defeated in the Canadian Parliament in 1869, but the appointment of Francis Hincks to replace John Rose as Minister of Finance began an era of compromise between bankers and reformers. Although Canadian bankers generally triumphed in their conflicts with critics, "banking and currency were seldom important political issues and were considered less
urgent than questions of commercial policy and national development."69 Perhaps the most predominant material concern for Canadians in the years after Confederation was the construction of both the Intercolonial and the transcontinental Canadian Pacific railways, but it is a fact familiar to most that since so many of the prominent Canadian politicians of the period were involved in railways and finance, the bankers had a powerful influence upon public policy other than that dealing merely with banking and currency. So although a central bank was not established in Canada until the twentieth century, this difference in priorities may be an indication of the difference in the relative levels of commercial development reached by Germany and Canada in the 1870s, and should render the similarities in solutions sought for national problems all the more interesting.

As the leading statesmen in both countries would no doubt have observed, a "political programme that emphasized expansion and industrialism had the added advantage of ignoring the potentially divisive issues that would disrupt a 'political nationality'."70 More than just a matter


70 Brown, "Nationalism of the National Policy," p. 162.
of a "materialistic policy in a materialistic age", 71 the protective tariff became for both federal entities a symbol of national unity and cooperation. Massive campaigns of public 'education' were necessary in both cases to turn an economic policy initially desired by certain interest groups into an expression of the nation itself, a symbol of the solidarity of its hopes and desires, taking on the significance of a "national policy" to protect the nation and its labour 72 from being overwhelmed by 'the foreigner'.

The notion that tariff protection of the national market would "constitute a sufficient enticement to induce contractors to invest in numerous areas of national production" was conceived in Canada decades earlier, in the atmosphere of general optimism which pervaded the mid-nineteenth century, "when the theory of the liberal state, of maximum laissez-faire, of free competition, of pure individualism, reigned supreme in all governments." So it has been observed that "this intervention of the

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71 Ibid.

72 "Der Schutz der nationalen Arbeit" became the slogan of German protectionists in the 1870s, and could be taken to mean many things; the word Arbeit can be translated as labour, work, or even production.
state in economic life did not in any way interfere with the primacy of private enterprise.\textsuperscript{73}

While English, French, and American history abound with conflicts over the tariff in the nineteenth century, in Germany and in Canada the situations were special cases in which there prevailed a general and widespread over-estimation of the causal significance of the role of the state regarding tariff and trade policy in the expansion of the national economy and even in the control of the cycles of economic change.\textsuperscript{74} For though it has, even very recently, been held that Canadians were "to World War I seldom if ever compelled to debate what it was they sought in terms of a state,"\textsuperscript{75} the economic downswing of the 1870s was a factor which implicitly provided one such occasion, particularly by the election of 1878.

\textsuperscript{73} Dubuc, "Decline of Confederation," pp. 116-17.


\textsuperscript{75} Black, Divided Loyalties, p. 5. Other such occasions were the loyalty issue in the election of 1891, the reciprocity issue in 1911, and the naval debate under Wilfrid Laurier.
Financial struggles heightened federal difficulties in both countries within the first decade after federation. An interesting point of difference is perhaps the fact that Canada was the more highly centralized of the two states. The British North America Act rendered the entire economy under federal control. Sec. 91.2 reserved the regulation of trade and commerce, sec. 91.10 navigation and shipping, and sec. 91.12 the sea coast and inland fisheries under the jurisdiction of the central government. The federal government could control literally "any works and undertakings" (sec. 92.10) including railways, canals, and telegraphs. Agriculture and immigration (sec. 95) were also under the jurisdiction of Parliament when the federal government so wished. While the central government could tax "by any mode or system" (sec. 91.3), the provincial legislatures had the exclusive powers of direct taxation (sec. 92.2). The main source of provincial revenue was to be federal subsidies promised in sec. 118, and to be determined by population.

The fact that the provinces were thus dependent upon the federal treasury and without their own source of reve-

76 Black, Divided Loyalties, p. 34.
77 Ibid.
nue was seen as creating problems for the Canadian federal structure, particularly manifest in the economic aspects of the Nova Scotian movement for "better terms". A consequence of the economic and political complications of federation, the movement represented the difficulties encountered when regional dichotomies were compounded by the superimposition of the disparities inherent in the move toward centralization.

The German federal structure suffered in some sense from the reverse situation. Art. 70 of the constitution designated revenue from tariffs, excise duties, and postal and telegraph services as the financial sources of the Reich. As far as these did not cover the amount necessary, the balance would be provided by state contributions whose proportions were also determined by population. These matricular contributions were intended to be a temporary expedient, until the Reich had established its own system of taxation. It shall be seen how the attempt to estab-


79 Reichsverfassung vom 16. 4. 1871, XII. Art. 70: "Zur Bestreitung aller gemeinschaftlichen Ausgaben dienen zunächst die etwaigen Überschüsse der Vorjahre, sowie aus den Zöllen, den gemeinschaftlichen Verbrauchssteuern und aus dem Post- und Telegraphenwesen fließenden gemeinschaftlichen Einnahmen. Insoweit dieselben durch diese Einnahmen nicht gedeckt werden, sind sie, so lange Reichssteuern nicht eingeführt sind, durch Beiträge der einzelnen Bundesstaaten nach Massgabe ihrer Bevölkerung aufzubringen, welche bis zur Höhe des budgetmässigen Betrages durch den Reichskanzler ausgeschrieben werden."
lish the planned financial independence of the Reich from the states was time and again foiled, and how the tariff became the focal point for this struggle as well.

The determination of the proportion of financial contributions by population was in both cases a primitive or at least somewhat crude criterion which obviously failed to take into consideration the diverse financial needs and/or abilities of the various regions. Resentment voiced by the Canadian maritime provinces in their demand for "better terms" and the bitter struggle which in Germany culminated in the adoption of the Franckenstein Clause to limit the revenue attributed to the Reich from customs duties reflect both the regional and the jurisdictional disparities inherent in the two federal systems. But in the prosperous years to 1873 these were relative undercurrents, not nearly as explicit as they were yet to become.

The mass appeal of the protective tariff as a panacea was not apparent until material needs provided the catalyst after 1873, though in their search for American markets after the Grant administration in 1870 refused to consider reciprocity for natural products in terms satisfac-

80 Ernst Rudolf Huber, Deutsche Verfassungsgeschichte seit 1789, vol. 3: Bismarck und das Reich (Stuttgart: W. Kohlhammer Verlag, 1963) p. 951.

81 Ibid.
tory to the Central Canadian provinces, the Canadian government did tinker with the idea of raising tariff barriers against American manufacturers. 82 There was a regional struggle involved as well, since no reciprocal agreement for such natural products as Maritime coal could be reached without protection to Ontario grain. In 1870, after reciprocity failed, the proposal was made to exchange aid to Nova Scotian coal for the protection of Ontario grain; Charles Tupper of Nova Scotia was cheered in the House for his recommendation of a bold national policy which would promote the best interests of all classes and fill our treasury. . . . If we could not have free trade, the time had certainly come for having at least a reciprocity of tariffs. Was there an intelligent man in the country who did not know that our declaration of such a policy would give us a Reciprocity Treaty in a year? . . . all we had to do was to assume a manly attitude on that great question in order to obtain free trade with the United States. But suppose they resented the retaliatory policy, the result would be hardly less satisfactory than a Reciprocity Treaty. It would increase the trade between the Provinces, stimulate intercourse between the different sections of our people, and promote the prosperity of the whole Dominion. 83

The form of the Treaty of Washington in 1871 exemplified in practice the contention of various parties that the state should be an active agent on behalf of economic groups within the nation. By the Treaty, American fisher-

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men were permitted access to Canadian inshore fisheries, while no agreement regarding reciprocity in natural products could be reached.

The Canadian manufacturing industry was "stronger, more varied, and more ambitious than ever before", at the same time showing a growing protectionist tendency. The growth of the Orange movement early in the 1870s to protect the interests of farmers certainly reflected the increasing consciousness of Canadian farmers as a group, too. Despite the apparent legislative trend away from tariff protection, for Ontario farmers had been protected in 1866, and together with the resentment resulting from losses incurred from the Treaty of Washington, Ontario farmers were becoming "eager for retaliation against the United States". Though even by 1872 Canada was still exporting too many raw materials and importing too many manufactures to accept a doctrine of tariff protection, a sense of economic nationalism could certainly be detected.

Manchester laissez-faire individualism was actually "never at any time practised in the Canadian economic envi-

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85 Heick, Mackenzie and Macdonald, p. 63.

86 Creighton, Old Chieftain, p. 120.
ronment", for the role of the state was traditionally accepted in an "environment promoting maximum business opportunity while providing minimum social regulation of profit-making". In Germany there were in the nineteenth century two influences on political and economic thought, namely the idea of the paternal state and the desire for national unity, so that there was a general sympathy on the part of German writers on economics and politics "towards State action, and an inability amongst economists to keep their discussions free from political considerations". From the mid-1860s on there had been "every indication that Germany was about to follow Great Britain to free trade," but by 1879 the adoption of a protective tariff "marked the beginning of an international protectionist reaction." The consequences of these apparently paradoxical situations are of interest to us here.


89 Ashley, Modern Tariff History, p. 49.

90 Lambi, Free Trade and Protection, p. ix.
It seems reasonable to recognize that there arose a movement "in close alliance with that for national union and political liberalism, which aimed at economic liberalism in theory and in practice" and which was an integral part of the creation of both federal states under discussion here. But if the newly created nation-state felt threatened from without the national boundaries, then this economic liberalism, in order to remain valid within, may without apparent loss of consistency have become invalid toward outsiders. The fact that "irrationalism derives a great stimulus from economic depression" leads to the further question whether the depression of the 1870s was not just what was needed to focus internal difficulties onto external causes, to create the notion of an external threat where perhaps none really existed, and then to supply the panacea. Demands for internal political and social reform were thus diverted by the less divisive cry for protection.

A recent study has determined that in the late nineteenth century Canadian businessmen felt themselves at the mercy of competing social groups and under severe pressure from one another. In fact, though, the problem was a

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91 Roll, Economic Thought, p. 214.

92 Ibid., p. 213.

93 Bliss, "Dyspepsia of the Mind", p. 175.
more general one:

the social consequences of unrestrained capitalism were too much for actors in society to bear... causing an immediate and massive reaction against laissez-faire throughout the western world leading to social arrangements guaranteeing the individual a measure of relief from the strains of life in an unregulated, uncertain society.94

Karl Polanyi saw nineteenth-century Western society as suffering from an internal conflict which manifested itself in a social schizophrenia, an attempt of society in the era of industrial capitalism (1846-1933) to "give itself up to blind 'self-regulation' at the same time that it spontaneously reacted by 'self-protection' to ward off the destructiveness of its official policy." The corresponding organizing principle at work for the former was the movement of the self-regulating market based on the principle of economic liberalism; its methods were free trade and laissez-faire (which was in actuality more a goal than a method), its support rested on the class interests of the mercantile middle class, and its intellectual sanction came from classical economics, "... a veritable faith in man's secular salvation through a self-regulating market." The self-protection movement had its own "specific institutional aims, having the support of its own definite social

forces and using its own distinctive methods"; its aim was "the conservation of man and nature and productive organization," it relied on the "varying support of those most immediately affected by the deleterious action of the market (especially but not exclusively the working and landed classes)", and its methods were "protective legislation, restrictive associations, and other instruments of intervention." The conflict of these forces supported by distinct social classes could not but result in class conflict within the society.

Polanyi did not investigate the role of the tariff in this movement of self-protection against unrestrained capitalism, but it may be consistent with the rest of his theory to conjecture that the protective tariffs of 1879 were seen as a meeting-point for the two opposing movements, to be used by each of the interests to what seemed its own advantage. In this way these 'national policies' can be seen as the synthesis in what appears to be a sort of dialectical process.

Polanyi further contended that the Industrial Revolu-


96 Sievers, Market Capitalism, p. 366.
tion had been, despite the economic progress it entailed, a social calamity, and consequently after 1860 there was launched the legislative spearhead of the countermovement against the disruptive threat of the self-regulating market:

At innumerable disconnected points it set in without any traceable links between the interests directly affected or any ideological conformity between them. . . . Precisely because not the economic but the social interests of different cross sections of the population were threatened by the market, persons belonging to various economic strata unconsciously joined forces to meet the danger.97

But whereas Polanyi saw the movement as "spontaneus, undirected by opinion, and actuated by a purely pragmatic spirit",98 this remains for our purposes open to further investigation. But before a more detailed observation of the Canadian and German situations would be fruitful, it remains necessary to determine the nature of the relationships of liberalism, laissez-faire, free trade, and protection.

Economic liberalism is not equivalent to laissez-faire. The former "is the organizing principle of a society in which industry is based on the institution of a self-regulating market"; implied is the creation of this market system through legislative enactment in the areas of international free trade, the competitive labour market, and the

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97 Ibid., pp. 170-72.  
98 Ibid., p. 172.
gold standard, and its maintenance through administrative enforcement. Laissez-faire was less a method than a goal of economic liberalism; it was not non-interference as such which was wanted, "but an automatic system even at the expense of considerable interference". Not only could the state be called upon without inconsistency to use the force of law, but in a conflict between freedom and the self-regulating market, "the latter was invariably accorded precedence."  

Since "the key to the institutional system of the nineteenth century lay in the laws governing the market economy", "the problem of state building on the Continent ... was concomitant with the growth of the market system."  

Given the dynamic forces which moved the British North American provinces toward Confederation after the repeal of the Corn Laws in 1846, though the process evolved through no unbroken line of stages, there does not seem to be much reason to exclude Canada from this type of nineteenth-century nation-state. From the 1870s "... impregnable bastions of a new nationalism were being unconsciously erected in the shape of the central banks of issue," for monetary protection gained acceptance by all classes.  

99 Ibid., pp. 177-79. 100 Ibid., pp. 180, 193.  
101 Ibid., pp. 204, 224.
the Canadian priorities were necessarily different, although the basic tendency was not. The Bank Acts of 1870 and 1871 conceded to reformers that all notes under four dollars were to be issued by the government and held as a fraction of the commercial banks' reserves, and the Bank of Montreal was replaced as redemption agent by branches of the Receiver General's Department.\textsuperscript{102} The relationship of Canadian state building to the growth of its market economy was obvious in Confederation, and undeniable in the National Policy. "Steam and iron united in the railroad strengthened the power and extended the sway of the invisible hand of the market system."\textsuperscript{103}

Some of the interests within the nation opposed one another, and Polanyi was not the first to warn against accepting the bias of assuming the neutrality of the market mechanism\textsuperscript{104} in the national development. The ruling classes needed the political support of the working classes, and made concessions of social legislation and other pro-labour legislation to achieve national unity. But the working and trading classes found that free trade made food cheaper, and

\textsuperscript{102} Goodwin, \textit{Canadian Economic Thought}, p. 102.

\textsuperscript{103} Nelles, ed., introd. to \"Philosophy of Railroads\", p. xxvii.

\textsuperscript{104} Sievers, \textit{Market Capitalism}, p. 207.
were not protectionist in this sense. According to Polanyi, the position of obsolete landed classes was perpetuated during the nineteenth century only because the protectionist reaction was in the interest of society at large, and incidentally retarded the mobilization of land. But in turn the reaction served to keep the working classes in their place, "so that the markets should not be thrown into a panic." 105

What makes these general observations interesting for our purposes is that in both Canada and Germany the various protectionist drives did become integrated, "social and national protectionism tended to fuse", cooperation was substituted for hostility, and "the reason was an inescapable pattern of community of interest." 106 Many Canadians and Germans had somehow come to feel the need to be 'protected'.

But it would be fallacious to overrate the desire for tariff protection, at least before 1875. Commercial interests, wholesalers, and importers still opposed the industrialists who supported a protective tariff; Canada, they felt, had progressed by adhering to "free trade" and should not abandon it. 107 The Canadian Manufacturers' Association was or-

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105 Ibid., pp. 194-99.
106 Ibid., p. 224.
ganized late in 1871 to protect the interests of its members, but until time allowed for a more national organization, its scope of interest and influence was to remain very local in character, with centres in Toronto, Hamilton, and Montreal. Labour unions, most of which were interna
tional, had existed since 1851, though legally Canadian unions were to 1872 still viewed in the spirit of the eighteenth century, for it was only then that the Canadian Parliament recognized the legal rights of unions even to exist. Boards of Trade and Chambers of Commerce existed as well by this time in Saint John and Halifax. In 1873 the Ottawa Trades Council was founded, and in 1874 sent a representative of labour to the Ontario legislature. In that same year the Toronto Trades Assembly called a convention of unions which was to become the Canadian Labour Union. At the subsequent Canadian Labour Union Congress on 4 August 1874 the remarks in the Secretary's Report concerning the draft treaty for reciprocity, that

... It is high time that this Dominion was laying aside its swaddling clothes and becoming self-sustaining, and we can only become so by a fair and liberal protection.

... If ever we are to be a self-dependent country, ma-

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manufacturers must have inducement to make investments amongst us in other than a sharp and ruinous competition were "highly approved". But, ostensibly for other reasons, the remarks were expunged from the Report. ¹¹⁰ The politico-economic dilemma faced by the Canadian national entity was perhaps expressed by the 'nationalism' of the Canada First movement, whose advocacy after 1871 of a protective tariff and closer trade ties with the West Indies involved propositions which were in practice mutually exclusive. ¹¹¹

The years of the early 1870s were still generally years of optimism in Canada, and both Conservatives and Liberals, when in power, were to 1874 still attempting to negotiate a reciprocity treaty with the United States. The Brown-Mackenzie wing of the Liberal party was "completely and consciously Cobdenite in its endorsement of the Manchester school of Free Trade and the reign of natural economic laws." ¹¹² What this meant in practice was not that tariffs a per se were opposed, but that this type of liberalism dif-


¹¹¹ Heick, Mackenzie and Macdonald, p. 47.

¹¹² Ibid., pp. 63-64.
ferred irreconcilably with any policy which would enhance the growth of the corporate structure in Canada. This applied most obviously to the building of railways, especially contentious after the Pacific Scandal of 1873, but present throughout this period in the entire railway policy of the Liberals.113

As owner of the influential Toronto Globe, the organ of the urban businessman whose prosperity was seen to be based on the activities and interests of the Western Ontario farmer,114 George Brown vocally opposed any notion of protection for Canadian manufacturing. Canada was seen as having no need for a protected home market which would increase the costs of production and hinder the competition in the world market for the farmer, the export of whose produce was Canada's main business.

The general mood of optimism was exaggerated in Germany after the military victory of 1871; the French indemnity put much fluid capital into private hands and the new attitude of the world toward the new German state increased the investment incentive almost to the level of a "specula-

113 The letter of C. J. Brydges of the Railway Department to Alexander Mackenzie, 1 June 1876, Alexander Mackenzie Papers, Public Archives of Canada, pp. 1242-43 (microfilm) exemplifies this attitude toward growing corporations.

114 cf. Careless, "Globe and Agrarian Radicalism."
tive mania". The demand for railways, iron, and steel saw such a mushrooming of new enterprises that many were overcapitalized and there was "an overproduction of the means of production". It was also a period of virtually complete freedom for German banks; free incorporation laws and a promotional boom encouraged the predominance of joint-stock banks, like those which dominated the railways, over private banks. The German banks "acquired a formidable degree of ascendancy over industrial enterprises, which extended far beyond the sphere of financial control into that of entrepreneurial and managerial decisions". The effects reached even the organized structure of German industry; unlike their British counterparts, the movement of rapid concentration in German banking after 1870 resulted in the momentum of the cartelization movement in German industry.

In 1872 the German export of rails exceeded imports

115 H.A. Bueck, Der Centralverband Deutscher Industrieller 1876-1901 (Berlin: Deutscher Verlag, Gmbh, 1902) 1: 105-10.

116 Brentano, Getreidezöle, p. 9.


sixfold, and up to 20% of domestic capital was tied up in foreign investments.\textsuperscript{119} Gradually from 1860 the import duty on pig iron was reduced, so that by 7 July 1873 it was fully repealed. Reduced also were the duties on iron and steel goods, machinery, etc., with the stipulation that on 1 January 1877 these too would be fully repealed.\textsuperscript{120} If the duties on textiles had been abolished as well, the German economy would have become almost completely free trading.\textsuperscript{121} Even after 1873 for the German iron industry exports and inland markets were still improving.\textsuperscript{122}

The collapse of the Vienna stock exchange in May 1873 was the portent to a widespread commercial reaction which entailed a rapid fall in prices and a general recession in trade. Especially since the economic downswing followed so quickly upon the heels of political controversy, both in the Canadian change of government following the Pacific Scandal and in the German abandonment of most industrial tariffs,

\textsuperscript{119} Hardach, Bedeutung wirtschaftlicher Faktoren, pp. 18-9.

\textsuperscript{120} Germany, Reichstag, Stenographische Berichte Über die Verhandlungen des deutschen Reichstages, Legislatur-Periode I, Vol. 4, Session 4, 1873, Anlagen, Aktenstück Nr. 238, Clause V.

\textsuperscript{121} Lambi, Free Trade and Protection, p. 72.

\textsuperscript{122} Hardach, Bedeutung wirtschaftlicher Faktoren, p. 37.
the significance of the depression as a challenge not only to laissez-faire but to the nation itself in both the economic and the political arenas becomes all the more apparent. And while it is true that where trade policy is concerned the agitation of interest groups is a more important factor in the decision-making process than the secret plans of cabinets,123 and even in Germany in the 1870s it was not Staatsräson but the influence of social and economic pressure groups which determined the course of national development,124 it is nevertheless also true that the protective tariffs of 1879 became reality for political, ideological, and social more than for economic reasons.125 But before the less tangible can be considered, the question of the economic need must be investigated.

123 Lotz, Ideen der deutschen Handelspolitik, p. 2.


125 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 9.
CHAPTER III

FREE TRADE, PROTECTION, AND THE "GREAT DEPRESSION"

With the crash of the Vienna stock exchange in May 1873, which precipitated the subsequent world-wide depression, the atmosphere of optimism steadily dampened to meet changing economic realities. Consequently, in most Western states with any level of industrialization there were revived the doubts about the ability of the free market mechanism to govern itself to the general advantage, doubts which had been suppressed by the general increase in prosperity after mid-century.

For constitutional reasons which altered her internal balance of power in favour of agrarian Hungary after 1867, the Austro-Hungarian Empire was inclined toward a less strongly protectionist policy during the 1870s, although tariff rates were tinkered with in the latter half of the decade. Similarly in France, a great industrial power by 1870, poor harvests late in the decade led to an alliance of farmers with manufacturers, which resulted in the tariff which became law in May of 1881; but this de-
development was intended as a basis for negotiations, and was "on the whole a victory for the supporters of free trade". In the United States the revision of the tariff in the post-Civil War years remained very much a party issue in every election to 1896; not until the McKinley Tariff in 1890 did the novel feature of extending protection to agriculture reflect the new theory of protection of the home market with the ideal of national self-sufficiency as a goal. No longer a temporary expedient, protection then became "a consistent endeavour to keep society dynamic and progressive" because it was believed that progress would come from the development of large continental states rich in natural resources.

But the protective tariffs adopted by both Canada and Germany in 1879 had taken on an even deeper significance a decade earlier than the McKinley Tariff. This "novel feature" of protecting both industry and agriculture by the deliberate political entwining of these separate sectional interests to create the image of a greater national whole had political, social, as well as economic and financial, purposes more comprehensive than were evident in the policies of the other industrialized nations, precisely because of the resolution of internal contradiction.

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2 Ibid., pp. 306-16. 3 Ibid., pp. 190-204.
tions necessitated by their respective federal structures. The depression of the 1870s aggravated these contradictions, which neither time nor civil war had yet served to resolve decisively, as had been the case in France, Britain, and the United States.

The compelling ideology of expansionism which prevailed upon much of Western civilization in the latter half of the nineteenth century had at its core the interrelationship of domestic commerce, foreign commerce, and power.

A nation's power was commensurate with its foreign commerce, dependent in turn on domestic commerce. Thus if national power were to be advanced domestic commerce had to be encouraged. 4

In their realization of the importance of transportation, especially of railroads and canals, and the domestic development of heavy industry, the proponents of this ideology formed a bridge to the practical exercise of public policy.

In Germany, the iron industrialist Wilhelm von Kardorff was one who supported his desire for tariff protection with just such arguments:

But national wealth is today also a precondition of national power. Nations which do not feel called to exercise a decisive influence upon the destiny of the civilized world, which through their geographic position are

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protected from the interference of more powerful neighbouring peoples, can forgo the acquisition of national wealth -- but for a nation like the German, the backwardness of the national well-being is equivalent to the sacrifice of that same powerful position which it achieved with forceful exertion in the hottest and bloodiest combat, equivalent to the restoration of the disastrous influence which foreign lands have for centuries imposed upon the development of our Fatherland.5

For Kardorff, the domestic market was the decisive factor; to build up domestic industry was far more advisable than the "shortsighted" desire of agrarians for cheap machinery and foreign markets.6 Liberals like Ludwig Bamberger7 and A. Bayerdörffer 8 were vehement in their disagreement, and argued for the importance of trade treaties over state interference in the domestic economy. "The best and most effective protection", they felt, was "always one's own efficiency".9


6 Siegfried von Kardorff, Wilhelm von Kardorff, p. 120.

7 Ibid.

8 A. Bayerdörffer, Schutzzoll und Freihandel mit besonderer Bezugsnahme auf die deutsche Eisenzollfrage (Jena: Verlag von Hermann Duftt, 1877) p. 45.

9 Ibid., p. 46.
Canadian advocates of tariff protection too envisioned in material progress a path toward power, for from national wealth "shall come national power and honour -- men and means -- fleets and armies -- and the public spirit without which they would be useless."¹⁰ In line with this notion was the recommendation to the Conservative government by a Select Committee in 1872 "that some proper means should be adopted for utilizing that immense source of wealth" which the "vast deposits of iron ore in this Dominion" constituted.¹¹

After 1873, the trend toward free trade appeared to have had the reverse effect in Germany from that in Britain. Unemployment and a shortage of investment capital were the bitter consequences suffered by a nation ill-equipped for free trade because its citizens lacked the necessary "economic patriotism", or so many argued. To these it seemed that only a protective tariff could compensate for this lack of patriotism.¹²

Manufacturers in the iron and textile industries had opposed the lowering of the duties in 1873. While the annexation of Alsace-Lorraine in 1871 brought great resources of iron ore and potash salts at a time when new metallurgical processes, like that discovered by Bessemer, greatly stimulated the impetus of steel production, the development of German iron and steel production was still frustrated, at least until after 1878. It was only then that the Thomas-Gilchrist process made possible the removal of high percentages of phosphorous from the ores of Lorraine. Internal problems of adjustment extended as well to the additional competition of the weaving and spinning industries in Alsace-Lorraine, which only aggravated the problems of the German spinning industry. When the recession continued into 1875, both iron and textile manufacturers began to chafe under the impending repeal of most remaining tariff duties in 1877. It began to appear that the economic order was cracking.13

The appearance that same year of Kardorff's Gegen den Strom! (Against the Current) as a critique of contemporary free trade policies caused a sensation,14 for its author was


14 Siegfried von Kardorff, Wilhelm von Kardorff, p. 121.
not only an influential iron industrialist, but also an influential member in the Reichstag. At the very least, Kardorff's argument brought to light the notion, taken from Carey, that industry and agriculture were not in mutual opposition, but existed in tandem, like capital and labour. Kardorff set out to show that since "free trading" nations were in general poorer than those with protective tariffs, the free trade doctrine must be flawed. The only way seen by Kardorff to secure the national well-being was to increase both wages and work through a protective tariff, for the Socialists would increase wages without increasing work, while the Manchester liberals would increase work without increasing wages. Interesting as well is Kardorff's part in the controversy which later developed regarding overproduction in the German textile and iron industries. His denial that German industry was overproducing sought to shift the entire blame for the economic crisis upon the upholders of the free trade doctrine which allowed British

15 Henry C. Carey (1793-1879), an American economist and publisher who espoused a protectionist tariff policy and founded a "nationalist" school of economics. Carey pos-
and American dumping in the German domestic market.\textsuperscript{17}

There were, though, numerous spokesmen for the defense, and the arguments reached an almost metaphysical level when comparing free trade to religious and political freedom.\textsuperscript{18} The crisis atmosphere appears to have aggravated for German liberals and conservatives the latent dichotomy between national and individual freedom, a problem with which Canadians were also having to deal, but whose terms were not essentially European in orientation and hence have not been seen as "ideological" or "principled".\textsuperscript{19} The regional ramifications of the National Policy shall provide for our purposes a case in point.

By 1874 the Canadian lumber industry, which produced Canada's single greatest export item, "was in a depressed state; -- agriculture was so-so; and manufacturers were complaining of American dumping practices."\textsuperscript{20} While early in that year public opinion even in Central Canada was accep-

\begin{quote}
\textsuperscript{17} Wilhelm von Kardorff, \textit{Gegen den Strom!}, pp. 7, 24, 29, 2.
\textsuperscript{19} Black, \textit{Divided Loyalties}; p. 4.
\textsuperscript{20} Heick, \textit{Mackenzie and Macdonald}, p. 95.
\end{quote}
ting the view "that advantages for the Maritimes would be
net the entire country and the free entry of Canadian
fish and fish oil into the American market would be a prize
worth negotiating," by summer hope was fading when no
Congressional action was taken regarding a reciprocity
treaty, even though certain manufactured articles were ad-
ded to the list of Canadian concessions. Canadian commer-
cial and industrial interests expressed their opposition
to reciprocity on such terms at a meeting of the influen-
tial Dominion Board of Trade on 18 July at Saint John.
Whereas the Board had for four years been urging that reciprocity be attained, it now qualified this desire by re-
stricting it explicitly to natural products and maritime
privileges, in opposition to "defects" in the proposed
treaty which would give advantages to American manufactur-
ers. There becomes evident within the Board of Trade
a shift toward a sense of common interest between commer-
cial and industrial elements.

21 Rothery to Granville, 20 November 1873, quoted in
Heick, Mackenzie and Macdonald, p. 78.

22 Allan Nevins, Hamilton Fish: The Inner History of the
Grant Administration, 2 vols. (New York: Frederick Ungar Pub.

23 The (London) Times, 6 August 1874, p. 8.
The Ontario Industrial Association met at Hamilton and resolved that reciprocity would upset business by causing Canadian markets to be swamped, Canadian freight rates to rise by encouraging trade through Boston and New York, and the unemployment of Canadian workers. The Canadian Labour Union Congress also feared possible detriments to Canadian manufacturing. The Globe maintained its firm stance against a protectionist policy for industry, and while admitting a need for increased taxation, contended that the Conservative opposition was trying to cause a panic against free trade ideals, and that tariffs should only be on luxury items such as "high class sugar", and for revenue purposes only.

So although it never achieved reality as a piece of legislation, "the Brown treaty caused or coincided with a crystallization of Canadian opinion about the tariff."

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24 The Toronto Globe, 14 August 1874, p. 4.


26 The Toronto Globe, 19 January 1874, p. 2.


and the Conservative Party mouthpiece was all too willing to connect the element of nationalism with the issue. Rather than the "voluntary surrender of compensation for the use of our fisheries," the Toronto Mail demanded that the Liberal government "consider the commercial and national advantage of Canada." There was said to be no need for the reciprocity now seen as anti-national and portending annexation.

The depression made its first real impact in Canada by 1875, when business failures more than doubled the rate since 1873. Just as had been the case in earlier depressions, the agitation for a tariff change, especially against American goods, increased. But the difference was that by 1876 there was neither reciprocity nor hope of achieving it, and this was decisive in the subsequent turn of Canadian events. The needs of agriculture were made to

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29 The Toronto Mail, 14 July 1874, p. 2.

30 Heick, Mackenzie and Macdonald, pp. 89-90.

31 Ibid., p. 234.


seem inextricably bound with those of manufacturing interests who advocated protection and who had made little progress in their long agitation up to this time, but ingeniously started a cry for agricultural protection against the United States farm products, as the best means of getting protection for themselves. This proved a most adroit move on their part. The catchy proposal took immediately with many of the farmers, and before the year closed, a lively agitation had arisen on the subject.34

At least by July 1876 the Liberal government was aware of the political danger, "aware from many indications that our farmers were more or less led astray by a plausible cry, and undoubtedly it must be met." For though in Mackenzie's Liberal view it was "a delusion to believe it would do them any good to go through the forms of imposing a duty on United States farm produce" it was also painfully true that "in the matter of manufactured goods we had reached the maximum of our collecting powers by custom dues."35 A new factor in Canadian politics was now capable of upsetting the traditional balance: Brown's British, Liberal, free trade philosophy was popularly being rejected. "The failure of reciprocity in trade was creating a cry for reciprocity in tariffs," and for Canadian Li-


35 Alexander Mackenzie to James Young, 21 July 1876, quoted in Public Men and Public Life, Young, 2:251.
bepalism this represented the failure to achieve a major
goal. 36

The low-cost economy, which in Canada represented
the practical application of the free trade philosophy
within the limitations imposed by the need for revenue,
was by 1876 giving way to a high-cost economy which of-
fered a nebulous umbrella of protection to all classes
within the nation. The gap represented by the supposed di-
chotomy between industry and agriculture seemed to be close-
sing rapidly in the face of demands for both industrial
and agricultural tariff protection.

But this is not to say that commercial classes re-
mained on the periphery. The Bank of Montreal dominated
Canadian banking in the 1870s "to a degree which has no mo-
dern parallel"; 37 its domestic business encompassed large
railway, lumbering, and industrial accounts, along with those
of federal and provincial governments. 38 The role of the

36 Heick, Mackenzie and Macdonald, p. 93. Luther Hol-
ton referred to reciprocity as "the biggest thing of our time",
Luther Holton to Alexander Mackenzie, 5 June 1874, Macken-
ze Papers, pp. 490-91.

37 J. Lorne MacDougall, "The Character of the Entrepre-
neur: The Case of George Stephen," in Canadian Business His-

38 Merrill Denison, Canada's First Bank: A History of
the Bank of Montreal, vol. 2 (Toronto: McClelland & Stewart
financial interests in the Canadian Confederation has already been mentioned, and the disproportionate influence of railway interests, both within the government and upon subsequent policy, is a familiar factor which must be borne in mind. This line of argument received a recent reformulation which, though its general hypothesis perhaps needs to be tested more thoroughly, offers for our purposes an interesting conjecture regarding the interest of commercial classes in the tariff aspect of the National Policy. Whereas industrialists sought their own protection, i.e. of domestic production against foreign competition, the commercial interests sought to protect themselves in the very antithesis of this concept, albeit within the same National Policy. The attempt to harness the use of foreign capital for "national" benefit was to create in Canada a commercial-industrial dichotomy as well.

It has been generally agreed that the "conversion" of agricultural interests from their usual free trade stance to tariff protectionism was one of the decisive factors which shifted the German politico-economic balance as it had the Canadian. The other necessary factor was the con-

version of Bismarck to the active pursual of the protectionist policy in a national context, just as Macdonald’s
d cittigts were to Canada the decisive element in the political realization of the National Policy. This aspect
shall be dealt with in greater detail in the chapter following.

Already by the 1870s, conditions in Germany had reached the point where grains had to be imported, since domestic harvests no longer sufficed to fill domestic needs. Actually, various regional attitudes to trade policy can be discerned. Falling prices in the 1870s, resulting from improved transportation which facilitated imports from Russia and soon from the United States, hit hard in the debt-ridden northeastern provinces, which had to date been the centre for grain grown for export to the European market. The Baltic seaports (Memel, Königsberg, Danzig, Stettin) naturally remained free trading. Both Hamburg and Bremen had strong protectionist minorities, but these North Sea ports were both still outside the German customs boundaries.

Agriculture in middle Germany was not as involved in export. The kingdom of Saxony had its own industrial area, and by the 1870s the agricultural hinterland was interested in securing the inner market for itself. Similarly in Upper Silesia, where heavy industry favoured a protective duty on iron, poor soil made agricultural competition keen-
ly felt, and agricultural protection was also favoured. Better soil and less industry in middle and Lower Silesia saw free trade favoured as the better business method there. Brandenburg, the province of Saxony, and Posnania were neither decidedly protectionist nor free trading. As a rule, then, in middle Germany any rising interest in agricultural protection was linked with a new solidarity with industry, i.e., in those areas where the domestic market was predominant.

In western Germany, particularly in Rhineland-Westphalia, the competition of Russian and American grains left large landholders more interested in a protective tariff than were small farmers, but the interest was more of a passive one, to balance the tariffs desired by industry. In Baden agriculture had little to gain from grain tariffs; little grain was produced in the Black Forest, and farther east small farming had little connection with outside markets. Similarly the small landholders in Württemberg were at a loss on the question of grain tariffs. Textile exporters, though, were opposed to agrarian tariff protection.40

In the south it was not just religion which bound

40 Hardach, Bedeutung wirtschaftlicher Faktoren, pp. 92-121.
Bavaria to Austria. Economic interests including shipping and even monetary units were common to the Danube region; in trade policy the south was protectionist.  

Although the literature tends to attribute to the agrarian protectionist "movement" of the later 1870s the motive of attempting to establish a link between the east German grain-producing centres and the west German consumers, it has more recently been pointed out that while the east produced soft wheat, the west needed hard wheat. Moreover, the main rivers run perpendicular to any such east-west commercial system, and the railroad systems were both too expensive and too complicated to facilitate east-west trade. It was easier and more natural for eastern Germany to export and for western Germany to import grain. This controversy is highly reminiscent of that revolving around the role of the St. Lawrence system in Canada, and the similarity of tasks assigned to the protective tariff in the respective larger attempts to build and maintain an "artificial" economic structure, as the basis for the growth of a nation, becomes more obvious in this parallel.

For while the new emphasis in research seems to be


42 Hardach, Bedeutung wirtschaftlicher Faktoren, pp. 122-25.
on the continuation of the more cosmopolitan trend in German agriculture, the older argument that after 1876 increased competition from American, Russian, and Indian wheat, aided by colossal reductions in freight rates, began a decreasing trend in German exports, while increasing population raised imports, has not been rendered false. Coupled with mounting debts and bankruptcy, there did result a sudden desire on the part of the large landholders to secure the home market through a protectionist tariff. But Karl von Hardach argues very convincingly that these were neither the sole nor even the main reasons for the apparent "conversion" of agrarianism to protectionism. While industrialists and agrarians were working both dependently of and against one another, it took the politics of Bismarck, and of Macdonald in Canada, to be able to reconcile the interests of the two. It remains here to view the various free trading and protectionist organizations.

The German Agricultural Council (Deutscher Landwirtschaftsrat), which since 1872 had been the central organization of the many regional agricultural societies, repre-

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43 Brentano, Getreidezölle, pp. 9-10.

44 Hardach, Bedeutung wirtschaftlicher Faktoren.

45 Lotz, Ideen der deutschen Handelspolitik, p. 122.
presented a range of opinions so divided regarding the free trade question that there cannot be said to have been any one "spontaneous" action of agrarians in petitioning the government. In many cases the stand of regional groups did not parallel their own economic requirements, according to Hardach. On the whole, German agrarians before 1877 were still undecided, until Bismarck provided the deciding factor.46

In 1876 the Association of Reformers of Taxation and of the Economy (Verein für Steuer- und Wirtschaftsreformer) was founded by Prussian landed aristocrats (Junkers) who also reorganized the German Conservative Party47 at that time. The Association pretended to defend on a national scale the collective and allegedly identical interests of agriculture against commerce, banking, and industry; while falling prices and profit margins hit the Junkers much harder than the peasant farmers, the move toward sham solidarity paved the way toward protective tariffs for agriculture.48 Contemporary literature on the agrarian free trade/


protection decision is abundant and all the more polemical because agrarian protection, an outright contradiction of the Listian tradition, was for the first time being seriously supported in Germany:

Unconditionally there must be achieved an equalization of the conditions of German and foreign production and it appears as though there exists only one means of protecting the national production and abolishing the differential railway rates... a protective tariff.\(^{49}\)

Freight rates were a problem to producers in both Germany and Canada, the former because foreign products received preferential rates on German railways, the latter because such a vast distance separated Canadian producers from potential Canadian consumers. It was in 1870 even contended that "Freights on the products of the farm are a prohibitory tariff," and that this, along with the fact that "farming does not demand much capital to begin with," was the reason "the Canadian farmer requires little protection."\(^{50}\) But whereas the protection afforded by reciprocity had been lost to Canadian natural products by 1865, in Germany, as has been seen, most of the agrarians still enjoyed various forms of natural protection until into the 1870s. Hence in Germany tariff protection for agriculture did not become


\(^{50}\) J. Beaufort Hurlbert, Field and Factory Side by Side; or, How to Establish and Develop Native Industries (Montreal: John Lovell, 1870) pp. 60-61.
a political issue until the later 1870s, while in Canada it was an issue already in 1866.

If Canadian farmers composed a pressure group at all, they were in the 1870s still an informal one without a central political organization. The Grange was an agricultural association with growing regional branches, but maintained an official policy of remaining aloof from partisan politics.51 Actually, it was the agricultural sector of the Canadian economy which effected an "important countercyclical influence... when favourable developments in foreign shipments of Canadian produce must have moderated domestic declines in income."52 The Canadian wheat harvest of 1877 was the best since 1855, and indeed the mood of the agriculturalists was temporarily optimistic, although the poorer harvest of 1878 resulted in low prices and an atmosphere approaching despondency.53 Yet ironically it was the Canadian grain trade which by 1879 was instrumental in the


53 Morgan, ed., Dominion Annual Register, 1:287.
displacement of Germany as the granary of Britain. These considerations leave open to question the validity of the argument that Canadian agrarian tariffs were in fact necessary in any other way than as an added lever into the American market.

The industrial structure, however, lacked breadth and depth; "aggregate employment and income were relatively more sensitive to movements in the foreign demand for Canadian exports," and complaints against American dumping were rampant. Not only had an excess in imports on long credit from England imposed a heavy burden of mercantile debt, but fixed charges arising out of government assistance to transportation improvements made increased taxation necessary to alleviate the public debt. It seems that the general optimism had by the mid-1870s been replaced by a general sense of urgency, and in their insecurity Canadians

54 Lambi, Free Trade and Protection, p. 133.


were looking to Ottawa for action. 58

Since in Germany the more highly developed state of heavy industry rendered the Listian infant industries argument no longer valid, 59 it is perhaps not surprising that in particular the iron industry was a rather highly organized protectionist interest group, especially after the crash of 1873 provided ample arguments against the prevailing free trade atmosphere which threatened to repeal all iron duties by 1877. The existing Society for the Promotion of the Economic Interests of Rhineland-Westphalia (Verein zur Wahrung der gemeinsamen wirtschaftlichen Interessen in Rheinland-Westfalen) represented iron industrialists in its agitation for the retention of the duties. In 1873 the Society of German Iron and Steel Manufacturers (Verein deutscher Eisen- und Stahlindustrieller) was founded by iron industrialists who also held seats in the Reichstag: Eugen Richter was president, while Wilhelm Löwe, Carl Ferdinand Stumm, and Wilhelm von Kardorff 60 were active participants in the agitation both in the Society and in the Reichstag. It was soon realized, however, that public

58 Héick, Mackenzie and Macdonald, p. 235.
59 Lambi, Free Trade and Protection, p. 91.
opinion would have to be changed before the law would be changed.\textsuperscript{61}

The sheer intransigence of the free traders left the iron manufacturers "not reluctant to seek allies in other interest groups which wished to increase protection for their own products."\textsuperscript{62} In the first instance the result was the founding of the Central Association of German Manufacturers (\textit{Centralverband Deutscher Industrieller}) in January 1876. Though the iron industry was the senior member of this protectionist partnership,\textsuperscript{63} the cotton industries and the manufacturers of chemicals, sugar, linen, and leather were also represented.\textsuperscript{64} Von Kardorff was the first president of the Centralverband, and the advocates of the reversal of Germany's free trade tendency were commonly regarded as reactionary representatives of self-interest groups,\textsuperscript{65} it was initially a policy of the Centralverband to avoid publicly stamping their organization as protec-

\begin{footnotesize}
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\item \textsuperscript{61} Bueck, \textit{Centralverband Deutscher Industrieller}, pp. 127, 129.
\item \textsuperscript{62} Lambi, \textit{Free Trade and Protection}, p. 97.
\item \textsuperscript{63} Ibid., p. 117.
\item \textsuperscript{64} Ashley, \textit{Modern Tariff History}, p. 41.
\item \textsuperscript{65} Bueck, \textit{Centralverband Deutscher Industrieller}, p. 130.
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tionist. 66

The Centralverband publicized its own purpose as the promotion and protection of national employment, intended to "fight the prevailing system, prepare the way for a policy of moderate tariff protection, and thus to bring about a reversal of German policy regarding trade and customs duties. 67 To de-emphasize the still unpopular stress on tariffs, other advantageous protectionist causes such as the revision of the patent laws, social welfare for labour, the reform of differential railway rates, and the organization of exhibitions 68 were supported. "Der Schutz der nationalen Arbeit" (the protection of national employment, labour, work, production, etc.) became the slogan of tariff protectionists, and the popular tendency to equate free trade with liberalism created severe ideological difficulties for political liberals who had failed to separate economics from political economy. Also, by publicly demanding governmental investigation of the situation of the iron and textile industries, the Centralverband helped to sway public opinion toward a more sympathetic attitude. A new emphasis on the soli-

66 Siegfried von Kardorff, Wilhelm von Kardorff, p. 129.
68 Lotz, Ideen der deutschen Handelspolitik, p. 125.
darity of interests within German industry\textsuperscript{69} paralleled similar developments among German agrarians, while in actuality small industry was not represented in the Centralverband at all.\textsuperscript{70}

The second level at which alliances with other interest groups were sought by the German iron industry was outside the sphere of industry, namely with the agriculturalists. It will be recalled that von Kardorff had earlier published his views regarding the natural community of interest which he professed existed between industry and agriculture, and given his influence in the Centralverband, it is perhaps not surprising that a correspondence was initiated in an attempt to improve relations with agrarians.\textsuperscript{71} Given also the increasingly defensive agrarian position after 1876, it is perhaps also to be expected that there were agrarian leaders like Ferdinand Knauer-Groebers who saw in solidarity with industry\textsuperscript{72} advantages for their own group.

\textsuperscript{69} Bueck, Centralverband Deutscher Industrieller, pp. 154, 193, 336, 340.

\textsuperscript{70} Lotz, Ideen der deutschen Handelspolitik, p. 125.

\textsuperscript{71} Bueck, Centralverband Deutscher Industrieller, p. 175.

\textsuperscript{72} Ibid., pp. 311-12.
Karl Polanyi argued that late in the nineteenth century "all Western countries followed the same trend \( \text{toward protectionism} \), irrespective of national mentality and history"; what is more, the various protectionist desires became integrated, as in the relationship between agricultural and industrial tariffs. The alliance was "not a premeditated collectivist conspiracy", but rather the "substitution of cooperation for hostility" as a result of an "inescapable pattern of community of interest."

... Diverse and often opposing reactions to the common but not altogether conscious need for protection from the rigors of the market \( \text{led} \) different elements in society to the point where their interests were interdependent and mutually dependent upon a consistent policy of protectionism.73

Polanyi moreover pointed out that in this situation "agrarianism advanced by the capitalist's dependence on it."74 The questions arise whether the protective tariffs of 1879 have a uniqueness which separates them from the general worldwide trend of the time, and whether in fact they were indispensable, necessary, or beneficial at all. It soon becomes apparent that necessity and benefit are not mutually implicit at all, for a national "necessity" may

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73 Polanyi, quoted in Market Capitalism, Sievers, pp. 224-27.

74 Ibid., pp. 311-12.
not be of benefit to all groups within the nation, and a
decision regarding priorities must be made, whether con-
sciously or otherwise.

It has been contended that German industry was in
the 1870s strong enough to do without a protective tariff,
especially the iron industry, which was dependent upon the
world market, and which had reached such a stage of develop-
ment that tariffs had lost their progressive character. As
such, German industrialists have been accused of conspira-
cy to rob the pockets of the labouring classes by means of
the tariff. 75 More specifically, although there were im-
ports of iron products, German consumption had fallen off
and German iron industries did suffer after 1873. But
other states were not dumping so as to flood German markets,
and there was never really a crisis situation. 76 There was
indeed overproduction within the German iron industry, but
the considerable export was proof of the efficiency of the
industry, for if it could not compete domestically, it could
certainly not have met foreign competition. 77 As early as

75 L. Rathmann, "Bismarck und der Übergang Deutschlands
zur Schutzzollpolitik," Zeitschrift für Geschichtswissen-

76 Lambi, Free Trade and Protection, pp. 75, 79; 2/3 of
imports were half-manufactures, in Finanz- und Zollpolitik,
Gerloff, p. 130.

77 Fritz Kestner, Die deutschen Eisenzölle 1879-1900
(Leipzig: Duncker & Humblot, 1902) pp. 5-11.
1875 the *Saturday Review* complained of the Germans that "In every part of the globe they are cutting out English traders, and even in England are seizing on whole branches and even centres of trade as their own." The German cotton and linen industry had internal problems owing more to the readjustment necessitated by the annexation of Alsace-Lorraine than to anything a tariff could possibly remedy, as was readily admitted by the industrialists themselves. At the very least, then, demands for an industrial protective tariff were grossly exaggerated, holding the repeal of the iron tariffs, accomplished in 1877, responsible for the unfavourable economic conditions.

Hans Rosenberg stresses that while the crash of 1873 brought "violent panics and dramatic 'crises' " to Austria, Germany, and the United States, and to England and France economic recession, albeit "milder and much smoother,"

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79 Germany, Reichs-Enquete für die Baumwollen- und Leinen-Industrie, *Stenographische Protokolle über die mündliche Vernehmung der Sachverständigen* (Berlin: Julius Sittenfeld, 1875/).

80 Gerloff, *Finanz- und Zollpolitik*, p. 130.
"this Great Depression was not accompanied by economic retrogression or by a spectacular breakdown."

On the contrary, total output, commercial turnover, and national wealth continued to increase, though at a distinctly lower rate of growth than between the trend prosperous of 1842-73 and 1897-1914. . . . it was this period (1873-96) which witnessed great additions in the efficiency of plant and the productivity of labour, creative innovations in business methods, and a wholesale adoption of improvements in technology and organization. . . . [But] The unsteady upward tendency of physical production and of economic services coincided with an unsteady and steep downward tendency of values. . . . The psychological exaggeration of economic difficulties and antagonisms created an atmosphere in which the economic depression seems to be taken for granted.81

Particularly indicative of the pervasiveness of the psychological depression was perhaps the fact that "vast quantities of capital remained idle or found refuge in foreign investments in non-capitalistic and semi-capitalistic countries, initiating an era of cheap public borrowing."82

In comparison to the German industrial condition, the Canadians probably had more at stake. While both the German and the Canadian federal governments depended very heavily upon import duties for their revenue, excess imports in Canada, as we have seen, left a heavy mercantile debt. Furthermore, after 1875 American industries were "able to pour their surplus goods into the Canadian Provinces at


82 Ibid., p. 60.
prices that defied the competition of concerns having only a small capital and a confined market."83

Yet though there resulted "a general demand for further and higher duties,"84 many Canadian manufacturers and businessmen "quietly went on making money."85 The cyclical depression from 1874 to 1879 was also part of a larger cycle to 1896, not of economic stagnation but of economic growth wherein trade, imports, and exports increased, though only modestly. While some sections of the country thrived, others did not; "Central Canadian business owed its prosperity to its successful conquest of the market in the Maritimes between 1867 and 1874." In lines such as agricultural machines "central Canadian manufacturers were able not only to drive Maritimers out of business but also to force the Americans out of the Maritime market."86

83

84
Ibid.

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86
Ibid., pp. 76-77; Evidence abounds in the testimony before the Select Committee on the causes of the present Depression of the Manufacturing, Mining, Commercial, Shipping, Lumber and Fishing Interests, Report of the Select Committee, in Canada, House of Commons, Journals, 1876, App. 3.
infant industries argument, "probably the strongest which can be advanced on behalf of protection,"87 was perhaps still valid in Canada, at least in the short run.88 But it has been shown by W.A. Mackintosh that, aside from this argument, economically most of the existing Canadian industries were quite independent of tariff protection, if only because their level of existence was naturally sheltered.89

Agricultural protection, on the other hand, was probably necessary economically in neither Canada nor Germany. P.B. Waite sees "no reason to assume that Canadian farmers were free traders, and some evidence that they were not."90 An importer of wheat and flour in the 1870s91 owing to the rapid development of the American west as a competitor of

87 Tucker, Commercial Revolution, p. 137.

88 Waite, Arduous Destiny, p. 82.


90 Waite, Arduous Destiny, p. 82.

the Ontario farmer, Canada still benefitted greatly from the expanding European markets for grain after 1876. It has further been argued that too much stress has been laid on the competition provided by the closing of the American frontier, and that internal geographical and technological factors account more for the failure of the Canadian western frontier to develop rapidly as an agricultural competitor. So Canadian agriculture was not suffering chronically as the victim of a "Great Depression"; it appears, though, that especially after 1874 there was "little hope left for an international commercial system." There appeared more and more to be no hope of a bond of union to the Empire, nor of reciprocity with the United States; in an atmosphere ripe for revenge, Canadian farmers were vulnerable to the claim that "Canada must adopt an independent system, springing from her own interests."


96 Hurlbert, Field and Factory, p. 4.
In Germany, grain exporters had lost markets, especially none which could be regained by a protective tariff. In fact, not a tariff but a rise in world prices would increase productivity of agriculture. It was on the one hand expected that protective tariffs would dampen foreign competition in German markets, and on the other that industrial protection would increase the domestic demand for agricultural products. Massive propaganda campaigns served to confuse benefits to the iron industry with national economic benefits, and agrarians were among those who came to believe in the protective tariff as a national panacea, and who visualized themselves among its beneficiaries. But even these protectionist agrarians did not envision agricultural tariffs as a permanent feature of the German economy. It was Bismarck who did.

Indeed, Hardach argues quite effectively, but it is not he alone who would diminish the significance of the

97 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 194.
98 Rosenberg, Grosse Depression, p. 186.
99 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 119.
100 Rosenberg, Grosse Depression, p. 182.
101 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 119.
economic factor in the establishment of the German protective tariff in 1879 from both the industrial and the agricultural points of view. Much earlier it was seen that just "how far this joint protectionist movement of agriculture and industry would have been successful, if left to itself, is doubtful."102

The catalyst in both the German and the Canadian situations was someone able to see the political advantages of reconciling opposing groups whose antagonisms permeated various levels of the socio-economic structure. Though Frank Underhill contended that "the tariff issue did not come into Canadian politics with Confederation,"103 it has often been noticed that "Undoubtedly much of the prosperity enjoyed by some central Canadian manufacturers came from the very fact of Confederation itself."104 The nature of the federal structure appears to have rendered regional structures more acute:

Disputes with regard to tariff levels and reciprocity represented struggles by the central regions to win advantages which the western and eastern regions would pay for, or vice versa, chiefly because of the coincidence of regions with economic interest groupings.105

102 Ashley, Modern Tariff History, p. 43.
104 Waite, Arduous Destiny, p. 77.
105 Black, Divided Loyalties, p. 6.
The German regional struggle appears even more complex. Wilhelm Gerloff argued that it was not so much the industrial west versus the agricultural east, as the protectionist (industrial and agricultural) south versus the free trading (industrial, agricultural, and mercantile) north. 106 More recently it has been contended that the struggle was less north–south than east–west, hence within the Prussian state as well as against it. 107

The issue was social as well as regional. With opposite predicaments regarding population, German emigration declined steeply after 1873, 108 while Canadian newspapers clamoured for an immigration programme to remedy the severe shortage of skilled workers 109 and to off-

106 Gerloff, Finanz- und Zollpolitik, p. 149.


set the wave of emigration since 1866.\textsuperscript{110} Mass production served to diminish inequalities in consumptive habits, and there resulted by the 1870s in Germany a levelling influence on social distinctions.\textsuperscript{111} Intermarriages and common financial interests tended especially after 1870 to dissolve social differences between the feudal country-nobility of struggling agriculturalists and the large-scale industrialists, the upper middle class.\textsuperscript{112} This was part of the "slow and painful process" in which the landed aristocracy "adjusted to its new position in the capitalist 'class' system replacing the precapitalist 'Estate' structure of Prussian society."\textsuperscript{113} Helmut Böhme maintains that the entire social significance of the protective tariff of 1879 was an attempt by Bismarck to weld the interests of these two classes inextricably in order to


\textsuperscript{111} Rosenberg, "Political and Social Consequences," p. 64.


preserve the position of the landed aristocracy in the new Reich.\textsuperscript{114}

While Canada had no aristocracy, no landed gentry, it has been held that class differences were anyhow of little importance with regard to issues concerning railways, tariffs, or the United States.\textsuperscript{115} In the overview it may be more accurate to note that a realignment of forces, and the transition to mass politics, were rapidly altering the traditional roles of the social classes, so that in both Germany and Canada the differences were becoming more obscured. The struggle was for industrial groups to gain economic and political power by allying with agrarian and commercial classes who sought to maintain their own positions.

In Canada, "the day of the farmer, as more than voter, was past in Liberal Ontario at Confederation, posed as it was on the threshold of the industrial age."\textsuperscript{116} It was not the wheat producers, but the railway and financial

\textsuperscript{114} Böhme, "Bismarcks Schutzzollpolitik," pp. 328-52.


promoters, who controlled strategic positions in business
and government.\textsuperscript{117} It appears to have been the agrarians
who were the pawns in the tariff issue.

The depression had been fatal to organized labour
in Canada,\textsuperscript{118} and as an interest group they played no role
to speak of in the political decisions of 1878,\textsuperscript{119} except
perhaps as part of the industrial interest group. It would
have been natural for working classes to oppose at least
the rising costs implied by protective tariffs, if not al-
so the likely effect which a protective tariff would have
on wages. The Congress of the Canadian Labour Union, though,
carried a resolution, though by no great majority, on 8 Au-
gust 1877

\[\ldots\]

that to a very great extent the present depression
of trade in Canada results from the excessive importation
of foreign manufactured goods, and we believe that in or-
der to remedy the evil a protective tariff should be the
policy of the country.\textsuperscript{120}

In Germany, even despite the nationalist implications
supposedly abhorred by Marxist socialist organizations, the

\textsuperscript{117} Levitt, \textit{Silent Surrender}, p. 50.

\textsuperscript{118} Forsey, "Labour Movement," p. 795.

\textsuperscript{119} Ostry, "Labour in the 1870s," p. 127.

\textsuperscript{120} Canadian Labour Union, \textit{Proceedings of the Congress},
comp. and ed. Wismer, pp. 81-82.
Congress at Gotha in 1875 had formed a compromise between Lassallean and Marxist socialism, and declared itself indifferent to the protectionist controversy. It seems that despite Marx's warning in 1873 of a universal crisis, which he predicted

is once again approaching, . . . and by the universality of its theatre and the intensity of its action it will drum dialectics even into the heads of the mushroom-upstarts of the new, 'holy Prusso-German empire.'

the workers as well as the agrarians were confusing benefits for the iron industry with benefits for the individuals who made up the national economy, including themselves.

Both Canada and Germany in the 1870s experienced, along with much of the industrialized world, pressures driving toward the economic expression of national exclusiveness. The traditional view that the adoption of a protective tariff, the crudest form of state action, was a major step in the process "driving the new Dominion towards the complete American variant of economic nationalism" is perhaps too narrow an interpretation to be fair.


122 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 67.

123 Ashley, Modern Tariff History, p. 108.

Although it is often asserted that in Canada "theoretical discussions of economic and political ideas were rare among political leaders, and the National Policy itself was pragmatic rather than ideological," it must be remembered that this is a popularized notion, valid perhaps in a general sense relative to the more highly politicized social strata in Europe, but contemporary arguments for and against the National Policy of tariff protection in the 1870s were very similar to those prevalent in Germany at the same time, and which had their origins in the classical economists, and in similar anxieties. The "argument that underdevelopment was a problem of external economies, such as access to large markets . . . had its roots in J.S. Mill and was a basis for the 'national policy' which favoured (albeit with ultimate distortions) the growth of Central Canada." The ideological problem resembled that in Germany, where by the 1870s the "time-lag in the development of the German economic environment accounts for the belated and often distorted reappearance of ideological battles that had already been decided elsewhere."

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125 Rowell-Sirois Commission, quoted in Divided Loyalties, Black, p. 116.


127 Roll, History of Economic Thought, p. 212.
An economic purpose of Confederation in Canada had been to foster a diversified national economy which would leave the country less susceptible to the effects of American and British tariff changes.\textsuperscript{128} But moreover, steam and iron were seen as prerequisites for a strong nation, and so the development of heavy industry was the basis of the power upon which the nation was ultimately to rest; what separated conservative from liberal was in the extent to which state action should determine the direction of this development. It was an age of materialism in which Canadians, "big and small, Grit and Tory," as most other industrialized nations, "chiefly intent on material development."\textsuperscript{129} The Canadian tariff was useful as a "great solvent of the difficulties of space" and as an "instrument in the creation of trade interchange amongst isolated communities," and was at least as important as "a factor in the evolution of national sentiment."\textsuperscript{130}

For it is in its political use to establish the nation upon a second, more tangible, foundation that the Canadian


\textsuperscript{129} Underhill, "Ideas of Upper Canada Reformers," p. 115.

\textsuperscript{130} Hopkins, Progress of Canada, p. 460.
protective tariff so resembles the German, and so differs from the so-called "American system". At that time, American national leaders "never thought to devise integrated political programs, and their followers, immersed in local affairs, would only have been shocked if they had."131 Unsettling vacillations since the Civil War, above all in tariff policy, had created uncertainty among American businessmen, and by the 1880s they demanded of their government "that the . . . issue be settled, that something be decided on a permanent basis, even if it were the wrong decision."132

Whereas, then, in the United States tariff policy was a result, an outward expression of economic nationalism, the relationship in both Canada and Germany between the two concepts of tariff policy and nationalism was necessarily different. Both 'nations' were little more than recently created federal entities attempting to become nations; national tariff policy was intended more to play a causal role in national unification.

In both cases the decision was not made by mass ral-


lies and petitions, nor by clever pamphlets,\textsuperscript{133} nor even, in the first instance, by economic need. In neither Germany\textsuperscript{134} nor Canada were the protective tariffs of 1879 the result of the capitulation of the federal government to pressure from big business and/or agriculture; the leading politician allowed himself to be pushed where he wanted to go.

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\textsuperscript{133} Johannes Croner, Die Geschichte der agrarischen Bewegung in Deutschland (Berlin: n.p., 1909) p. 89.
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\textsuperscript{134} Rosenberg, Grosse Depression, p. 188.
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CHAPTER IV

MACDONALD, BISMARCK, AND THE PROTECTIVE TARIFF.

The role of the leading statesman in the adoption of the policy of tariff protection in both Canada and Germany in 1879 cannot be overemphasized. It was not only because Canadian development had not yet advanced sufficiently far to bring business men, mining magnates, newspaper owners, or university professors as such into first-rate prominence that public attention was chiefly directed to Canadian political leaders, as has been contended;¹ John A. Macdonald was the chief contributor to the spirit of the times² in Canada not solely by default. In the 1870s there were few Canadian leaders who showed evidence of a broad vision of Canadian nationhood,³ but Macdonald's Cen-


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Central Canadianism\(^4\) perhaps provided an authoritative plan of action consistent with the ideology of material progress, as a surrogate. \(^5\) Nor did Macdonald necessarily recognize the identity of the conditions\(^5\) upon which economic growth depends. But it was he who as an influential leader made political currency of the contention that the state could play an active role in the creation of a national economy, thus to provide a foundation for the creation of the Canadian nation. Macdonald came to personify the three-pronged National Policy of railway construction, immigration, and the introduction of a protective tariff whose new emphasis lay in aiding the development of this new nation.\(^6\)

So also was the influence of Otto von Bismarck decisive\(^7\) for the shift in German trade policy in the 1870s.

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\(^5\) These conditions are: transport facilities and accessibility to suitable markets, physical capital equipment and the capacity to finance capital formation, raw materials, and population (entrepreneurship, skilled labour force), quoted from Broude in "State and Economic Growth: Summary and Interpretation," Spengler, p. 354.

\(^6\) Höck, Mackenzie and Macdonald, p. 285.

Even his most adamant political opponents were compelled to reckon with this factor as political reality: "in these times Prince Bismarck cannot express any idea which does not immediately find its decided admirers," and the rapid change in public opinion, reflected in the shift in the balance of power in the Reichstag in 1878, once Bismarck took his stand, was an unexpected blow to free traders. 8

Where in Canadian terms at this time "nationalism" probably more accurately meant the appending of the other provinces for the avail of Central Canada, Bismarck too was a man of "national" vision, whatever the term means in the German context. 9 He had even seen the practical possibility of political liberalism in overcoming enough of the old political and cultural parochialism to achieve national unification. 10

But moreover, like his parallel Father of Confedera-


9 The question of Prussian/German priorities in Bismarck's loyalties has been debated; cf. Wilhelm Mommsen, Stein, Ranke, Bismarck (Munich: Verlag F. Bruckmann, 1954) pp. 179-247; cf. also Günther Franz, Bismarcks Nationalgefühl (Leipzig: B.G. Teubner, 1926).

tion in Canada, and unlike the Kaiser and his own colleagues in the Prussian government and the Imperial Chancellery, Bismarck, once he had wholeheartedly rallied to the cause of protection, saw this cause as an integral part of the internal policy of the German Empire, connected to the problem of Imperial strength and unity, to the issue of taxation, to the relationship between executive and legislative powers, and to the balance of political parties in the Reichstag. Both Bismarck and Macdonald, then, saw the institution of a protective tariff in 1879 in a context beyond its face value, as significant in a broader policy of national consolidation.

The resilience and the flexibility of both Macdonald and Bismarck as politicians make a difficult task of outlining their personal ideologies as consistent with any particular systems of political thought. Macdonald was no orthodox Tory in the British sense; he was more accurately a moderate or liberal Conservative who, not unlike his Grit counterparts, believed in the monarchy, the British connection, the parliamentary system, responsible government, a moderate property franchise, and life peerage for the Senate. Where he differed was in his basic conservative belief that the nation, and hence the national union, transcends the group, class, section, or individual. In

11 Lambi, Free Trade and Protection, p. 163.

12 Heick, Mackenzie and Macdonald, p. 4.
this point Macdonald conservatism fast approaches the belief shared by Bismarck that even the minorities who suffer when the national good is enhanced, are eventually benefitted because the nation as a whole benefits. 13 This perhaps reflects one point where the doctrine of material progress overlapped, or even grew from, the older romantic notions of conservatism.

While each worked from the assumption that his country was in its own right economically and politically viable, Macdonald has been referred to as "essentially North American" in his view of nation-building "through an alliance of state power with the energies and ambitions of the nation's business interests." 14 Macdonald's contention was that the political institutions of the state could be used to create economic unity within the nation, thus to consolidate the political unity which was less tangible. Many Canadian businessmen, on the other hand, were not adverse to the use of the state to support their enterprises, though they preferred to think that they controlled the extent and type of interference. But Bismarck's position was more than that of an agrarian who saw agriculture as the basis of the

13 Ashley, Modern Tariff History, p. 45.
14 Heick, Mackenzie and Macdonald, p. 4.
state, and who fought the extension of the powers of big business;\textsuperscript{15} he too would harness the powers of the material progress which he saw as necessary for the achievement and maintenance of national power relative to that of other nations.\textsuperscript{16}

By the 1870s changing circumstances, both political and economic, compelled each to seek an industrial-agricultural compromise; common conclusions were arrived at, reckoned from standpoints which differed enough to make worthwhile the pursual of just what provides the connecting link between these two situations. For it was Macdonald, and not his Liberal opponent Mackenzie, who was the coordinator and conciliator of the diverse interests of the Canadian people,\textsuperscript{17} and Bismarck who built the bridge to connect German agriculture and industry.\textsuperscript{18}

Macdonald's sense for opportunism where the diverse

\textsuperscript{15} Gerald S. Graham, "Gobden's Influence on Bismarck," Queen's Quarterly 38 (Summer 1931):436.


\textsuperscript{17} Sister Teresa Avila Burke, "Mackenzie and His Cabinet, 1873-1878," Canadian Historical Review 41 (June 1960):128.

\textsuperscript{18} Croner, Geschichte der agrarischen Bewegung, p. 97.
nature of the Canadian nation was concerned did not stop short of traditional economic policy. An eclectic even where the doctrine of free trade was concerned, he had never had strong views about it one way or the other. Macdonald's advocacy of a protective tariff while never attempting to discredit free trade as an economic principle exemplified his ability to adapt "to conditions which, if not irreconcilable, were apparently incompatible." Already in 1870 the movement for protection had attracted Macdonald's attention, and he was able to gain further evidence of how Canadians were thinking by the reaction against Brown's failure to achieve reciprocity by 1874. Lord Dufferin, the Governor-General, and Carnarvon, the Colonial Secretary, adhered to free trade principles, and the influential Toronto Globe continued to express the Li-

19 Heick, Mackenzie and Macdonald, p. 291.


22 Heick, Mackenzie and Macdonald, pp. 64, 92-93.

beral abhorrence of "protection, not for revenue, but pure and simple, for its own sake." 24 Out of this Macdonald could easily take advantage of the economic depression as the fault of Mackenzie's rigidity, which he referred to as that of a "fanatical Cobdenite"; even J.S. Mill, as Macdonald could accurately point out of a demi-god of the Liberal philosophers, had contended that "there might be disturbing causes which made Protection desirable." 25

Like Macdonald, Bismarck was everything but a theorist; Bismarck the politician and Bismarck the economist (Volkswirt) were impossible to separate. 26 And pragmatist, realist, and opportunist though Bismarck doubtless was, "he considered himself as the servant and instrument of superpersonal tasks and permanent tendencies" 27 in German national history. He wanted the interests of the majority realized. 28

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24 The Toronto Globe, 13 January 1874, p. 2.

25 Canada, House of Commons, Debates, 7 May 1879, p. 1822; see also J.S. Mill, Principles of Political Economy, Book V, Chapters IV, X.

26 Croner, Geschichte der agrarischen Bewegung, pp. 94-95.


28 Croner, Geschichte der agrarischen Bewegung, p. 95.
It was a tradition of laissez-faire and free trade which Bismarck had followed by claiming Alsace-Lorraine instead of the French colonies in 1871. Delbrück, a strong supporter of the Cobden Club, handled most domestic economic questions along these lines as President of the Chancellery until his resignation in April 1876. But already in 1875 Bismarck's intention to nationalize the railways was an indication of the level of his faith in free trade and laissez-faire. With the onset of the economic downswing and the gradual abolition of most of the customs duties to 1877, the federal government was more and more in need of new sources of revenue, and a takeover of the many railways owned privately or by joint-stock companies would have provided just such a source. With reasons of defence and also as an act of authority by the state in opposition to decentralizing tendencies, Bismarck attempted to justify his intention to consolidate the railways against vehement opposition from states like Saxony, Würt-


30 Ibid., p. 442.


temberg, and Bavaria. He was met with ultimate failure as well in his attempt in 1876-77 to raise revenue through the institution of State monopolies in tobacco and brandy. It was Bismarck's belief that economic links between the German states should be strengthened and used to cement national political unity,\textsuperscript{33} and he saw at stake behind changing tendencies in economic and fiscal policy political, social, and personal, as well as economic interests.\textsuperscript{34}

In Canada too the provinces at various times and on various issues chafed under the practice of Macdonald's conception that the federal government should be in a position to dominate the union. Macdonald's willingness to play off the various interests of the Dominion against one another was observed by one contemporary as showing that Macdonald was "more easily manipulated" than was Alexander Mackenzie. The Maritimes and Catholic Quebec, for instance, were seen to "expect more"\textsuperscript{35} from Macdonald, and he did not hesitate to use this to his own political advantage.

\textsuperscript{33} W.O. Henderson, \textit{The Industrial Revolution in Europe: Germany, France, Russia, 1815-1914} (Chicago: Quadrangle Books, 1961) p. 45.

\textsuperscript{34} Born, "Reichsgründung zum Weltkrieg," p. 230.

Macdonald saw himself much less dependent upon party, and Bismarck saw himself much more so, than may at first be apparent. Certainly Macdonald was a parliamentarian, but to him party was "a nexus of power, loyalty and rewards."36 At the same time the main task of his entire career was "to defend and enlarge the political union which the St. Lawrence required and to realize the possibilities which it seemed to promise."37 Without the realization of the ultimate goal of creating of Canada a strong and viable national entity, party in itself meant little. Moreover, Macdonald did not really believe that men were moved by political principles, and was ready to use whatever means were at his disposal to influence public opinion; he would guide and direct with a firm hand.38 Liberal abhorrence of Macdonald's manipulations was expressed not only with reference to the Pacific Scandal, but even after the election of 1878, five years later:

... the building of the C.P.R. will put a power into the hands of Sir John which he will not hesitate to use in time to come as he has used similar power in time

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past to bolster up himself and Party. -- at the public expense.39

The National Policy of railways, protective tariffs, and immigration, though essentially a party issue, was made to take on a significance transcending party by the time of the election of 1878.40

Bismarck's office as Reichskanzler placed him outside the German multi-party system, whose factional quarrels he felt made the Reichstag unreliable as far as the determination of the national good was concerned. Though the Reichskanzler was subject constitutionally only to the whim of the Kaiser, Bismarck saw his position, and that of the state, as one of self-defence if he could not obtain a parliamentary majority41 to support government action. His alliance with the National Liberals to bring about national unification, and against Catholic ultramontanism in the Kulturkampf from 1874, began to lose its utility as his plans for fiscal reform were time and again thwarted. The resignation of Delbrück in 1876 had been both cause and


40 See Macdonald's own remarks in House of Commons, Debates, 7 March 1876, pp. 195-96.

41 Born, "Reichsgründung zum ersten Weltkrieg," p. 229.
effect of a shift in policy away from laissez-faire, and Bismarck welcomed the split among the National Liberals over economic policy. The political potential of a harmony of interests between industry and agriculture as "an alliance of real forces not bound to the platforms of political parties" was obvious to Bismarck. For him the socio-political task was "pre-eminently a question of State, . . . to raise the power of authority above the interests of class."  

The supra-party appeal for a protective tariff was, in both Germany and Canada, indeed "economic nonsense but political dynamite" as far as the solidarity of national interests were purported to exist. Arguments in Germany contended that

Only the protection of home labour could provide the growing masses of population with bread and work, and this too was part of a programme which aimed at national self-preservation.

Canadian self-preservation, however, would involve the protection of home production to provide bread and work with growing masses of population. In both cases, party became

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the vehicle\textsuperscript{45} which put the national policy to the electors. It was in the "un-American"\textsuperscript{46} attitude of paternalism toward the working classes that Macdonald's conservatism again resembled that which Bismarck displayed on a larger scale. For various social and political reasons, socialism did not enter the Canadian electoral scene until almost 1900, and by then Canadian "labour leaders \textsuperscript{47} had been\textsuperscript{7} co-opted into the political system through participation in inter-class ethnic associations.\textsuperscript{47} But Trade Unions were active in the early 1870s, as has been stated; by 1870 there were fifty thousand industrial labourers in Canada moving toward increasing cooperation, especially among the Typographical Societies. The most celebrated case was that of the printers' strike against the Toronto Globe in 1872. This had "annoyed George Brown as a journalist, exasperated him as a proprietor, and outraged him as a stout be-

\textsuperscript{45} See Lockhart, "Macdonald Conservatism," p. 132.


lier in the Cobdenite philosophy of free enterprise and laissez-faire.\textsuperscript{48} The strikers were prosecuted under the old common-law restrictions against unions as combinations in restraint of trade.

Macdonald, in need of a political opportunity for the upcoming election, had a far greater instinctive appreciation of the social and political significance of the issue than did Brown; by gratifying the workingman he could discomfit the Liberals.\textsuperscript{49} In June 1872 were passed An Act respecting Trade Unions, and An Act to amend the Criminal Law relating to Violence, Threats, and Molesta-
tion,\textsuperscript{50} which followed the British example by freeing unions from the antiquated limitations of the common law while subjecting them to statutory penalties for "molestation" and "intimidation". The changes in the criminal code were easily applied by the courts to negate in practice the apparent changes in the legal position of the unions. The Globe abruptly dropped its case, and Macdonald appeared the friend and saviour of the workingman,\textsuperscript{51} who was any-


\textsuperscript{49} Ibid., p. 373.

\textsuperscript{50} Canada, Statutes, 35Vic-c30 and 35Vic-c31.

how in no position to wield much influence at the polling station.\footnote{Ostry, "Labour in the 1870s," p. 106.}

The immediate results, though, along with the risk of antagonizing a large number of small businessmen, mattered less than the "long game". Already in the election of 1872 Macdonald was advocating as a "National Policy" a "readjustment of the tariff in such a manner as incidentally to aid our manufacturing and industrial interests,"\footnote{J. Murray Beck, Pendulum of Power (Scarborough: Prentice-Hall of Can. Ltd., 1968) p. 15.} and when immigration is seen as the key to both, the National Policy and the Trade Union Act were more closely linked than is at first obvious.\footnote{Ostry, "Labour in the 1870s," pp. 106-7.} While there is little to support the view that Macdonald was inspired by any social philosophy along the lines of Disraeli or Gladstone,\footnote{Ibid., p. 109.} it is apparent that Macdonald could see working class interests as not irreconcilable, not only with Canadian nationalism,\footnote{Watt, "National Policy, Workingman, Proletarian Ideas," p. 4.} but also with the interests of the entire Ca-
nadian industrial population who desired the encouragement of home manufactures.57

In Germany the working classes were much more highly organized, and the socialist was a political reality, at least in the existence of the Socialist German Worker Party (SAPD). Perhaps by necessity more blatantly than was the Canadian experience, but nevertheless in a similar conservative response, Bismarck would defeat the Liberals and Socialists by tying the workers to himself. For tactical reasons the German Reichstag was elected by universal manhood suffrage since 1871, and the gradual movement toward civil equality to 1876 reflected Bismarck's recognition of the necessity of social progress58 to meet changing conditions. He saw "rich and poor, capitalist and labourer as categories of actual necessity,"59 but moreover Bismarck adhered to the traditional concern of the landed classes for the labourer, upon whom now even the capitalist was so greatly dependent. It was traditional for the German state, in the person of the monarch, to claim a particular obliga-


tion to the peasant classes, to provide for their protection against the power of the landed aristocracy; the translation was easily made to nineteenth-century terms by attempts to make the workingman the protegé of the more impersonal state. It was this paternalism which found its most obvious expression in the social insurance laws of the 1880s, but the earlier aspects of Bismarck's policy concern us here.

The widespread fear that Germany would suffer economic suffocation at the hands of English industrial efficiency and French export bounties (acquits à caution) produced an atmosphere uncomfortable for scapegoats, and Bismarck was active in shifting the blame for the economic troubles onto the Socialists. Seeing that even he could not alter the balance in the Reichstag to favour the fiscal reforms he regarded as so vital, Bismarck took advantage of the second assassination attempt against the Kaiser in June 1878 to dissolve the Reichstag and reorganize the administration.

60 Ibid., p. 34; see also Heinrich von Treitschke, Der Socialismus und seine Gönner (Berlin: Verlag Georg Reimer, 1875) pp. 45-46.

61 Barth, "Entwicklungsgeschichte," p. 10.

62 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 190.

Thus the undecided question of economic policy had never directly to be taken to the German public, and it became the correlate of the anti-Socialist laws, which without the economic reform would have remained a dead letter. 64 Not only in public speeches, but also in confidential memoranda Bismarck stressed the unity of his plan:

For me there is no doubt that the most effective way for the governments to oppose the socialist danger which threatens from all sides is the path of economic and practical reform. I consider these a necessary complement to the regressive measures which the crimes and excesses of last year obliged us to take, and whose effectiveness can be only partial and temporary, precisely because the evil lies deeper than these manifestations. . . . I am convinced . . . that the poor economic situation of both the totality and the individual is the chief source of the unrest. . . . 65

His public speeches in 1879 were also intended to capture all classes. 66 Bismarck's policy of solidarity protection was part of a greater plan to use political power and social welfare to achieve social security, political contentment, trust, and loyal cooperation. 67

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66 Gerloff, Finanz- und Zollpolitik, p. 158.

67 Rosenberg, Grosse Depression, p. 200.
Whereas Cobden had held that protection is a form of class legislation, Bismarck and Macdonald both seemed adept at developing a spiritual kinship among elements presumed to be mutually antagonistic. The rallying cry was national self-preservation; "Deutschland der Deutschen", and "Canada for the Canadians" were protectionist phrases whose meaning was claimed to transcend class antagonisms.

The question of the political roles of the protective tariffs of 1879 can be answered by determining the place of the tariff in the politics of Macdonald and Bismarck. In Canada, railways and tariffs have been so intermixed with politics and progress that not only is it almost impossible to dissever them, but "questions of protection and free trade have not been and could not be considered upon the same plan as they are in other countries" such as the United States, Great Britain, or Australia.

The notion of Canadian tariff protection in the 1870s was consistent with the entire Conservative policy of defensive expansionism, including transcontinental railway

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69 Barth, "Entwicklungsgeschichte," p. 11; Ross, Getting Into Parliament, p. 98.

70 Hopkins, Progress of Canada, pp. 447, 458.
construction by private enterprise along a route which would keep the railroad under Canadian control. The less costly Liberal idea of step-by-step government construction in conjunction with the advancement of the line of settlement westward failed to catch the public imagination as the more ambitious Conservative plan had.\textsuperscript{71} French Canadian businessmen, journalists, and politicians were advocating tariff protection after 1871, and thus anticipated the nationalistic, more than the economic, aspects of the tariff of 1879; by 1873 they were emotionally prepared to accept the National Policy, although the political influence this had on Macdonald is unknown.\textsuperscript{72} In 1872 Macdonald's platform of nation-building did include a tariff "readjustment", "while avoiding the word 'protection'."\textsuperscript{73}

Economic recession and sectional politics saw "local patriotism soars at the expense of the new nation"\textsuperscript{74} in the election of 1874, while the Pacific Scandal had reduced

\textsuperscript{71} Aitken, "Defensive Expansionism," p. 100.


\textsuperscript{73} John A. Macdonald to T.C. Patteson, 27 February 1872, quoted in "National Policy," Brown, p. 156.

\textsuperscript{74} Black, Divided Loyalties, p. 38.
Macdonald to fighting for his own political existence as a politician. The considerable gap which separated Canadian Conservative and Liberal ideologies was reflected in issues which came to the fore at this time, for the Scandal itself evoked Liberal opposition to the growing political and economic power of corporate railway interests, to the apparent inability of Parliament to deal effectively with charges made against the party in power, and brought into focus the entire question of the state, i.e. the apparent immunity of the state from standards of personal morality.

When the Liberal government under Mackenzie hesitated to risk sectional conflicts by raising the tariff in handing down the budget of 1876, the Conservatives under Macdonald found they had the man, the issue, and the solution to bounce back into power. Macdonald's motion

for the readjustment of the tariff, which will not only tend to alleviate the stagnation of business, but also afford encouragement and protection to the struggling manufacturers, and industries as well as the agricultural production of the country.

75 Heick, Mackenzie and Macdonald, p. 60; see also Creighton, Old Chieftain, p. 183.

76 Heick, Mackenzie and Macdonald, p. 242.

77 House of Commons, Debates, 7 March 1876, p. 489.
had party lines clearly drawn by 18 March, and served once again to shift the focus of these questions of state by appealing to, and tying together, selfish desires for personal advancement.

He had not even had to define his motion more concretely; urban newspapers and Members of Parliament translated the "readjustment" into a protective tariff. Public response was so favourable that it was not long before even the philosophical Cobdenite, Goldwin Smith, noted that national sentiment was ripe for protection, and that "it was folly in the Grit Government to slam the door in people's faces." Against Liberal Finance Minister Richard Cartwright's famous contention that this was "no time for experiments", Macdonald's claim that

if ever there is a time when it is lawful, or allowable, or wise, or expedient for a Government to interfere, now is the time ...

probably seemed to ring closer to the truth. A "paternal Government" had three reasons to "intervene to alleviate

78 Heick, Mackenzie and Macdonald, pp. 238, 245; see also the Montreal Gazette, 18 March 1876.


80 House of Commons, Debates, 7 March 1876, p. 493.
the misery": "our manufactures are in their infancy; . . . there is a great depression; . . . there is an admitted deficiency in the revenue."81

By autumn 1876 Macdonald's leadership in the Conservative Party was no longer at question,82 and the economy was the issue kept before the public eye through 1877 and 1878. The parliamentary struggle will be discussed later, but mention must be made here of the new tendency toward mass electoral appeals as opposed to the individual canvass. Macdonald was made aware of the apparent effectiveness of the former among urban workers,83 and the Conservative picnics were a successful part of the transition from regional electioneering.

The role of the United States was fundamental to the thinking of the framers of the National Policy,84 but it must be remembered that the contemporary literature indicates that the United States provided an alluring example to German protectionists as well. While the Liberals quarrelled among themselves Macdonald was able to crystallize public opinion by tying more diverse interests to his amor-

81 Ibid., p. 494.

82 Heick, Mackenzie and Macdonald, p. 217.

83 Ibid., p. 226.

84 Brown, "National Policy," p. 158.
phous motion:

that the welfare of Canada requires the adoption of a National Policy, which, by a judicious readjustment of the Tariff, will benefit and foster the agricultural, the mining, the manufacturing and other interests of the Dominion; that such a policy will retain in Canada thousands of our fellow countrymen now obliged to expatriate themselves in search of the employment denied them at home, will restore prosperity to our struggling industries, now so sadly depressed, will prevent Canada from being made a sacrifice market, will encourage and develop an active interprovincial trade and moving (as it ought to do) in the direction of a reciprocity of tariffs with our neighbours, so far as the varied interests of Canada may demand; will greatly tend to procure for this country, eventually, a reciprocity of trade.85

In a moving speech which could have been uttered by Bismarck himself, Macdonald appealed to "national considerations . . . that rise far higher than the mere question of trade advantage; there is prestige, national status, national dominion, -- and no great nation has ever risen whose policy was Free Trade."86

In a more practical vein, Macdonald explained how "It is not the tariff, but the debt that makes the taxation".87 Yet even in 1879 the Canadian public "had nothing but conjectures" regarding the scope and extent of Macdonald's tariff changes.88

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85 House of Commons, Debates, 7 March 1878, p. 854.
86 Ibid., p. 655. 87 Ibid., p. 859.
88 Morgan, ed., Dominion Annual Register 2 (1879):318.
try, took an almost impartial stance which would allow the election of 1878 to decide whether Canadian trade policy would henceforth continue the status quo or witness a readjustment of the tariff: "The present uncertainty is disturbing, and the sooner it is over the better."\(^89\) Once the electoral decision was made, changes in the tariff were accepted as inevitable: "We have always held that there was no reason to conclude that the tariff could not be re-arranged with advantages to the country, and we see no reason to abandon that opinion."\(^90\) Changes in the tariff were neither particularly encouraging nor alarming; the belief was that at best, protection to aid manufactures should be a temporary expedient.\(^91\) Yet in the election of 1878 the National Policy was favoured in all provinces except New Brunswick, and Macdonald himself explained the victory:

\[\ldots\] (The manufacturers) were told that they did not suppose the farmers were going to tax themselves to make the manufacturers rich, if the manufacturers did not do something for them and, the farmers were now advised, if you want to get protection for your products, you must get the manufacturers, the artisans, and the labourers

\(^89\) The Monetary Times and Trade Review -- Insurance Chronicle, 16 August 1878, p. 207.

\(^90\) Ibid., 7 March 1879, p. 1113.

\(^91\) Ibid., 16 August 1878, pp. 207-8.
to agree on one policy for the mutual benefit of all. 92

And again:

... one of the planks of the Conservative platform was that the Government could do something to help the people. They did not say it was out of the power of a Government, or out of the power of a Parliament, to help any industries... /Farmers would be/ protected as long as they had wheat to sell. 93

This kind of economic nationalism, with the rising demand for the fostering of national development by the so-called American plan 94 of protective tariffs and the high-cost economy that favoured home industries was alien to the mid-Victorian Liberalism of Brown Mackenzie, Blake, and Goldwin Smith; but the future lay with it, once Macdonald and the Conservatives took it up. From 1875 onward Canada was part of another world, that of the expanding state and the entwining of government and protected business interests. 95

By taking political advantage of various economic de-


94 Careless, Brown, p. 337; the writer respectfully questions the "Americanism" of this policy.

95 Ibid.
sires, Bismarck too was again a national founder, like Macdonald attempting to reconcile a traditional social structure with the new "national" economic and social policy. But in Germany this tradition reached back to far earlier times, for it was the landed, military, and bureaucratic aristocracy, the old privileged elite of a pre-industrial society and of a pre-constitutional state which Bismarck sought to preserve, aided by the more recently established big agrarian and industrial producers as a dam from below.

Just as Canadians have long been searching to define the identity of their nationhood, Germans have long been burdened by the inability to define what the term Germany should mean. While it has been held that apart from Macdonald and his close associates, "few of the élites had enough involvement in the Canadian national enterprise to make necessary or profitable the development of competing national ideologies," it must be remembered that the na-

96 Rosenberg, Grosse Depression, p. 189; see also Naylor, "Rise and Fall of Third Commercial Empire," pp. 13-21.

97 Rosenberg, Grosse Depression, p. 189.


99 Black, Divided Loyalties, p. 5.
tional ideology, that is the conception of what Canada should be and how she should reach this goal, held by the Liberals under Alexander Mackenzie, not only differed from that held by Macdonald Conservatives, but was perhaps just as valid. In a Liberal Canada after 1878, the atmosphere would probably have been intended to discourage the growth of large corporations, and to play down regional divisions by encouraging regional expression at the regional, rather than at the federal, levels of government. A similar assertion that Bismarck "understood better than anyone else of his generation that the basic problem of German history was to establish a satisfactory relationship between the nation and its component parts"\(^\text{100}\) perhaps again tempts one to confuse value or validity with the mere success of a concept. That Bismarck and Macdonald both had the political ability to impose their "national ideologies" says much, but not necessarily that theirs was the only choice that could have been correct.

Bismarck saw the plan for fiscal reform and for industrial and agricultural protection as a unit;\(^\text{101}\) social policy too was in part a response to the resurgence of the

\(^{100}\) Windell, "Bismarckian Empire as a Federal State," p. 310.

\(^{101}\) Lambi, "Agrarian-Industrial Front," p. 388.
problem of national integration. While fiscal problems were certainly at the root of Bismarck's reform plans, the tariff seemed to be one issue which could crystallize the political alignments he was planning to achieve for social, political, and economic reasons. Not only the death of Pius IX in 1878 allowed for an end to the Kulturkampf; the Catholic Centre Party had meanwhile become favourable to protection for both industry and agriculture, and hence became an alluring potential replacement for the National Liberals in Bismarck's Reichstag alliances. The protective tariff was in fact intended to supply a new national appeal to take the place of the divisive Kulturkampf.  

While fiscal issues involve general problems of protecting home industries without developing monopolies, promoting industrial interests without hurting agricultural interests, and helping the producer without hurting the consumer, there was in Canada the constant necessity of defining or at least considering relations with Britain and the United States. In Germany, too the problem of Austria, which had been decided militarily in 1866 and politically in


104 Hopkins, Progress of Canada, p. 462.
1871, was being decided economically in 1877-79. Negotiations for renewal of a trade treaty were broken off through direct orders of Bismarck in 1877 in order for German protectionists to gain time in marshalling their forces, to allow Germany an autonomous regulation of her tariff system. While the Centre had always longed for a political union including Austria, and the Dual Alliance of 1879 seemed to be heading in that direction, Bismarck felt no sentimental ties to Austria, a foreign power like all the others. Bismarck's reconciliation with the Centre over the tariff issue, despite the repudiation of one of their most basic beliefs, marks the literal end of the grossdeutsch struggle in Germany.

It will be recalled that economic theorists judge the protectionist arguments that the consumer is actually a producer and that the foreigner pays the duty as economically unsound, albeit politically effective. Both Macdonald and Bismarck resorted to this type of approach; Macdonald's education in industrial politics was a crash course

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Gerloff, Finanz- und Zollpolitik, p. 129.

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from influential protectionists like Isaac Buchanan and R.W. Phipps,\textsuperscript{107} while Bismarck sought counsel from, and adopted the views of, Wilhelm von Kardorff.\textsuperscript{108}

The public arguments put forth by Bismarck for the protective tariff appeared comprehensively for the first time in his memorandum of 15 December 1878 to the Bundesrat. Stressing the economic and playing down the political, the desperate need for fiscal reform was explained as making possible indirect taxation which would lighten the burdens of German taxpayers, while some foreign producers would be made to pay.\textsuperscript{109} The address to the Reichstag on 2 May 1879 went through at least four editions in published form before the year was over.\textsuperscript{110} In it Bismarck covered the entire spectrum of economic, nationalistic, social, and even moral appeals for a protective tariff on everything except necessary raw materials unable to be produced in Germany. He still claimed the issue was above

\textsuperscript{107} Lockhart, "Macdonald Conservatism," p. 132; see also Phipps, "Advantages of Protective Tariffs," 303-12.

\textsuperscript{108} Lambi, Free Trade and Protection, p. 178; see also Siegfried von Kardorff, \textit{Wilhelm von Kardorff}, p. 129.

\textsuperscript{109} Bismarck, "Das Schreiben an den Bundesrath," pp. 40-44.

party, even above politics, and strictly economic. 111

Fritz Mender's study of modern systems of tariff pro-
tection distinguishes these from earlier systems. The pro-
tective tariff of 1879 included a new factor which to that
time had been rejected by theorists, namely that of protec-
tion for agriculture. Mender contended that since the cor-
responding theoretical arguments were built up only after
the 1880s, upon the experience provided by Bismarck's grain
duties, it is unfair to criticize the economic arguments
of Bismarck or of other protectionists as if they were scho-
larly works. 112 His point is well taken regarding the Ca-
nadian experience as well, though it behooves us to be aware
of the political utility of these economic untruths. It
has also since been pointed out that the tariffs demanded
by Bismarck went beyond the legitimate needs of the interests
involved, 113 and that the hysterical fear of the Socialists
was just as exaggerated. Rosenberg calls it fear of a phan-
tom, built on a historical lie of which Bismarck made con-

111
Ibid., p. 16.

112
Mender, Das moderne Zollschutzsystem, pp. 120, 123.

113
Maenner, Deutschlands Wirtschaft und Liberalismus,
pp. 9, 379, 460.
venient use. Like Macdonald, Bismarck was playing the "long game".

The extent of the devotion of both Macdonald and Bismarck to either free trade or protection has been discussed. But the familiar story of Charles Tupper entering the House of Commons in 1876 prepared to blast Cartwright's budget speech for its excess protectionism, then having to rewrite his arguments when the Liberals announced their policy of maintaining a revenue tariff only, lends credibility to James Young's contention that if the Mackenzie administration had raised the tariff even moderately in 1876, then Macdonald would have remained an advocate of free trade, of the commercial policy of Empire, and of preserving the "endangered" British connection. Bismarck as well gave reason to believe that, had the Reichstag granted his monopoly of tobacco and brandy in 1878, he would never have turned from free trade when he did. He is even reported to have conveyed to Varnbüler, the chairman of the Imperial Tariff Commission, that he swam with the protectionist current only so long as protection for agriculture was provided.


115 Young, *Public Men and Public Life*, p. 239.

If not, he would seek out the free traders again.\footnote{117} Neither for Bismarck nor for Macdonald was tariff protection the fundamental issue.

A keen political sensitivity to changing tides had both Macdonald and Bismarck riding the crest of the same nationalistic wave. Through the protective tariff, Bismarck tied all interests, though hostile to each other, to himself.\footnote{118} His was a far-reaching programme of consolidation in which tariff protection was but a part. Bismarck would weld people and state in an attempt to preserve the middle class society from disintegration by means of association under one national banner. Whereas Bismarck sought for Germany an existence between western bourgeois democracies and eastern feudal absolutism,\footnote{119} Macdonald sought for Canada a national existence politically free from American domination, although this in no way is to be construed to entail an economic isolation from the United States. The intent was to allow Canadians to deal

\footnote{117} Christoph von Tiedemann, diary entry for 11 January 1879, in Sechs Jahre Chef der Reichskanzlei, 2d. rev. ed. (Leipzig: Verlag von S. Hirzel, 1910) p. 361; see also Böhme, Deutschlands Weg Zur Grossmacht, p. 537.

\footnote{118} Taylor, Bismarck: Man and Statesman, p. 181.

with Americans as equals, to consolidate for the Montreal financial industrial interests the opportunity, captured at Confederation, to build up another economic empire across the North American continent. 120 Even to 1911, the idea of protection embodied in the tariff was equated with the nation itself, and most Canadians considered material losses consequent to the National Policy "the price of being Canadian". 121 This refers to the higher prices which resulted for the Canadian consumer, and had its ironic connotations as well, namely that an argument by businessmen against reciprocity in 1911 was that benefits they had acquired from the use of American capital behind the tariff walls provided by the National Policy would be lost to them.

A vital factor in the political sphere, in addition to the dominant conservative leader, was in both Canada and Germany the political theatre, the House of Commons and the Reichstag. It was in this arena that the vague concept of public opinion became public policy, and it was there that the shift in the balance of political power could be detec-

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ted. Yet it becomes evident that even where the national policies themselves were being discussed and determined, there were various and conflicting notions of what these policies were to entail.
CHAPTER V

PARLIAMENT, REICHSTAG, AND THE PROTECTIVE TARIFF

In Germany the depression which began in the 1870s was a "decisive turning-point in the nineteenth century history of the relationship between the state and the economy."\(^1\) This is certainly valid for Canada, too. The protective tariff issues were such an integral part of the politics, though, that with regard to public opinion it becomes difficult to separate cause from effect; however the results of the elections of 1878 were indicative of changes in mood in both countries.

Whereas Victorian government was generally characterized by "its reluctance to extend its responsibilities beyond the minimum required to guarantee the free play of the market, the normal interaction of supply and demand,"\(^2\) it had been similarly feared in Germany that the delay in the repeal of the iron duties to 1877 had been the first sign of a desertion of the trends in Prusso-German policy toward free

\(^1\) Rosenberg, "Political and Social Consequences," p. 65.

trade traditional since 1818. But we have also seen that laissez-faire was an inclination natural neither to the German nor to the Canadian experience, for the role of the state was, of necessity, an active and positive one. While in Canada educated men who came of age between 1830 and 1870 were imbued with the doctrine of J.S. Mill, and "took very small stock in protection as a panacea for any ills Canada might have to suffer from," in the 1870s the "question of national status agitated the public mind as no other"; the two issues had become two sides of the same political coin by the federal election of 1878. And in Germany, despite Bismarck's insistence that the protective tariff was an economic issue, the ramifications, most clearly seen in the attempt to replace the matricular contributions in the Reich budget, were undoubtedly political.

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3 Gerloff, Finanz- und Zollpolitik, p. 128.


In both of the recently federated national unions, the political parties were in the 1870s developing and reorganizing on a national scale. In Canada the Conservative Party maintained the "Macdonald-Cartier vein of thought that economic interests overrode any such differences as religion and the community of economic interests lay with their fellow easterners, the French Catholics."7 Conservative nationalism was essentially anti-American,8 and in its negative sense this statement bears little relevance to this argument. But in its positive sense it means that the Conservative notion of Canadian nationhood expressed itself more readily in a desire not to be American, than in a desire not to be British. The idea was to be able to deal with Americans as equals, and had somehow to be extended east and west to maintain its apparent viability by striving to create a Canadian half-continent in its own right. Conservative legislation took forms consistent with these objectives; indirectly this provided opportunities for taking shots against the British as well.

Already in 1872 the Conservative version of Canadian

7 Heick, Mackenzie and Macdonald, p. 228.
nationhood was finding expression in the Patent Law, which was an important auxiliary of the National Policy, in the effort to deal with American business on a more equalized basis. The Free Homestead Law of 1872 was intended to attract to the future grain growing regions of the Canadian west a share of north and central European emigration, and as such was also a part of this Conservative nationalism which would preserve the Canadian half-continent from American encroachment.

The Liberals were leaderless until 1873, and politically weak and disunited in the campaign of 1874, winning the election perhaps only as a result of public reaction against the charges of Conservative corruption. Their refusal both to reconcile themselves to the National Policy, and to come up with an attractive alternative with a similar national appeal, results even a century later in re-

9 Canada, Statutes, 1872, 35V1c-c26, clauses 12, 22, 28.


12 Beck, Pendulum of Power, p. 22.
proaches for failing to "present themselves as a national entity with a national outlook even in 1878". 13 If anything united the Brown and Blake factions under Alexander Mackenzie, it was not an adherence to a doctrinaire belief in the principles of free trade as being beneficial to Canada; even Mackenzie saw that whether these principles could be applied fully in practice was another matter entirely. The Blake brand of Liberal nationalism opposed the Imperial powers of Great Britain, 14 and deemed the protection of Canadian industry a necessary condition for developing Canadian independence. Yet even by 1879, Mackenzie could not find it within himself to break with laissez-faire orthodoxy in the decision between a transcontinental economy and a low-cost economy, 15 and George Brown's persistent denunciation of protectionism in the Globe elucidates the depth and pervasiveness of the conviction. Still, Brown's failure to achieve reciprocity by 1874 reflected negatively on his whole mid-Victorian, British, Liberal, free trade position regarding public policy. 16

13 Heick, _Mackenzie and Macdonald_, p. 286.

14 Graham, "Liberal Nationalism," p. 109; see also Platt, "Imperialism of Free Trade".


16 Careless, _Brown of the "Globe"_, p. 337.
Mackenzie and Richard Cartwright, his Minister of Finance, both abhorred the "class divisions" they felt were entailed in tariff protection.\textsuperscript{17} The budget of 1876 was consequently another round of cutting expenditures by "a vigorous application of the pruning knife",\textsuperscript{18} aided not even by the proposed increase in customs duties of 2\textsuperscript{1/2}\% to 17\textsuperscript{1/2}\%, since the Maritime provinces raised serious objections. Mackenzie proposed "to treat the present time as an unfavourable one, because of the abnormal state of trade, for revising the tariff. . . ."\textsuperscript{19}

Macdonald, meanwhile in Opposition, thrived on the success of the political picnics, devised in the summer of 1876 to attract public attention to the Conservative "National Policy" and to contrast the Liberal admission of helplessness\textsuperscript{20} in saving Canada from the quagmire of laissez-

\begin{footnotesize}
\begin{enumerate}
\item[	extsuperscript{17}] Watt, "National Policy, Workingman, Proletarian Ideas," p. 6.
\item[	extsuperscript{18}] Mackenzie to Dufferin, 31 January 1876, quoted in Dufferin-Carnarvon Correspondence, eds. de Kiewiet and Underhill, p. 183.
\item[	extsuperscript{19}] Mackenzie to Dufferin, 15 February 1876, quoted in Dufferin-Carnarvon Correspondence, eds. de Kiewiet and Underhill, pp. 193-94.
\item[	extsuperscript{20}] Beck, Pendulum of Power, p. 31; see also The Toronto Mail, 3 July 1876, "Picnic at Uxbridge".
\end{enumerate}
\end{footnotesize}
faire. Mackenzie, the "embodiment of liberalism itself", in this light appeared cautious and timid, while Macdonald and his aggressive "shield bearer" Tupper came across as the brave and the bold. The very vagueness of the National Policy "attracted everyone who was dissatisfied with the status quo".

Mackenzie was probably too honest a politician to be successful. In his own version of the political picnic in the summer of 1877, he told rural audiences:

I know that some people imagine that in a period of depression the Government can do a great deal to re-suscitate business and induce prosperity; but any prosperity we may have is owing, not to legislation, but to the hard work, the industry, the productive powers and energy of our people; and any attempt to bolster our manufacturers by giving them an extravagant amount of protection would simply amount to the imposition of a heavy taxation on the farmer. . . . I believe the great mass of the people do not believe that the way to alleviate distress is to impose taxation. The idea is illogical, and cannot commend itself to any reasonable mind. Our object is to make this a cheap country to live in. . . .


24 Beck, Pendulum of Power, p. 32.
by carrying out protection for its own sake, by carrying out the policy of protection, I would make the rich man richer and the poor man poorer -- for that is, after all, just what it means. . . . Does anybody imagine that if I could get the Yankees to pay our taxes I would not arrange the tariff to do it? 25

The difference between Mackenzie's and Macdonald's tariff proposals constituted "the difference between unlimited American competition and a restricted competition". Times were relatively bad, and the issue of "free trade" and protection was one upon which the parties divided. 26 The Liberal stance led to a blood feud between Cartwright and the manufacturers, 27 and internal problems divided the Liberals between the leadership of Mackenzie and that of Edward Blake. 28 Without having achieved reciprocity, the Liberals had by 1877 few material accomplishments to support their political record, and leaned heavily upon less tangible principles.


26 Hopkins, Progress of Canada, p. 463.


In Germany too it was the issue of tariff protection which was to put the political fate of the National Liberals at stake. Elected by universal manhood suffrage and intended as a unifying factor to counterbalance particularist tendencies, the Reichstag was to become the theatre for these developments. Similar to the Canadian practice, but unlike the American, business interests were represented not in lobbies, but directly in the federal government.

The changes of the 1870s saw the reorganization of political parties to cultivate special interest groups and to broaden their appeal to include the masses; the increasing attention to economic matters provided fertile ground for this transition. Not only did the increasing numbers of the multi-party system complicate German politics, but also the fact that throughout the 1870s the Reichstag was struggling to gain the practice of its powers depicts issues less obtrusive on the Canadian scene.

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30 Levitt, *Silent Surrender*, p. 50.


On one level the political issues involved with the protective tariff included the struggle of the Reichstag to maintain some control over the federal budget (some of which was lost in the Septennat vote in 1874 over the military budget), and the struggle of the states to maintain the power they held over the Reich through their matricular contributions. On another level the issue involved the balance of the parties in the Reichstag, and Bismarck's plan to replace the influence of the National Liberals with that of the more conservative elements, including the Catholic Centre, who found they could support his fiscal projects.

The National Liberals were parliamentarians with whose support the Reich had been built. Believers in individualism and the separation of executive and legislative powers, they were divided into three factions according to the degree of compromise which their ideology would allow between national and liberal policy. Supported by middle, working, and professional classes, the official National Liberal position was to advocate a revenue tariff, but to oppose a protectionist one. Parallel to some extent to the dilemma faced by Canadian Liberals, the economic depression provided a testing ground for liberal ideals of laissez-faire, and political defeat was imminent.

33 Hardach, Bedeutung wirtschaftlicher Faktoren, pp. 173-76.
Against the National Liberal view, the Centre Party saw the state to be an organic economic and social body necessary to fill the collective spiritual and physical needs of all classes; a protective tariff seemed easily consistent with these economic and social motivations. By 1877 the traditional opposition of the Centre to the Prussian-dominated Reich, under whose Kulturkampf their very existence had been threatened, began to ease. The Centre supported not only a protective tariff, but also both industrial and agricultural protection, and Bismarck was soon willing to end his campaign against Catholicism.

The Conservative Party was reorganized by 1876, still representative of the east-Elbian landholders, but loyal to Bismarck instead of dogmatically free trading. Their opposition to any preferential treatment of big finance capital made the Conservatives likely supporters for protection for agriculture and small business. The Free Conserva-


35 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 176.

tives were representative of both medium-sized agriculture and of heavy industry, striving always for a balance between the two, although closely connected with the Centralverband Deutscher Industrieller after 1876. The influence of von Kardorff and his colleagues within the party was increasingly protectionist after 1873, though these opponents of free trade had in that year made possible the Reichstag majority for the lifting of the iron duties. This had been accomplished as a compromise agreement to postpone the repeal of the duties until 1877, to give the iron industry time to adjust itself. The Progressives in general opposed Bismarck's protectionist and fiscal plans, and advocated the retention of the matricular contributions until full ministerial responsibility could be attained by the Reichstag; in particular, though, some Progressives were protectionist.


39 Bayerdörffer, Schutzzoll und Freihandel, p. 1; see also Germany, Reichstag, Stenographische Berichte, 1873, pp. 1383-1421.

40 Lambi, Free Trade and Protection, p. 211.
It was precisely because the protective tariff issue cut across most major party lines that it became the fulcrum for Bismarck's domestic schemes to secure the financial independence of the Reich and its military machine beyond the reach of parliamentary control, to secure a new balance of power between the Reich and the states, and to neutralize dangerous social tensions. These various facets were interrelated by manipulating producers' demands for tariff protection and reforming taxation to decrease overhead costs, by completing national unification with the cement of unbreakable economic ties, by using the new alliance of militarism and protectionism, and by tactical labour policies later in the 1880s. Bismarck found a comprehensive way to cash in on the red menace, on the dependence of big industry on government support, and on the growing agricultural distress.\textsuperscript{41} The elements were so intertwined that even after the political defeat of 1878, the National Liberals did not yet realize that the economic aspect of their ideology was being defeated as well.\textsuperscript{42}

Late in 1877 Bismarck goaded Rudolph von Bennigsen, the leader of the moderate wing of the National Liberals, in-

\textsuperscript{41} Rosenberg, "Political and Social Consequences," pp. 68-69.

\textsuperscript{42} Böhme, Deutschlands Weg Zur Grossmacht, p. 508.
to refusing a position in the Prussian ministry, and the increasingly defensive position of the National Liberals was reflected in the election results of the following summer. Parties left of centre, including the National Liberals, the Progressives, and the Socialist Worker Party of Germany (Sozialistische Arbeiterpartei Deutschlands) lost seats to those on the right, including the Conservatives, the Free Conservatives, and the Centre. The electorate showed increasingly protectionist tendencies, and the National Liberals felt compelled to support the anti-Socialist law of 18 October 1878. A further blow to National Liberalism was struck simultaneously in the declaration of "the 204", a majority of Reichstag members who crossed party lines as the "Free Politico-Economic Association of the Reichstag" (freie volkswirtschaftliche Vereinigung des Reichstags):

... In order to preclude the misunderstanding that we have failed to represent the German people regarding the necessary interest in the justifiable demands concerning

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43 Böhme leaves open the question whether Bismarck's overture was sincere or merely a tactical manoeuvre, but finds even more significant the fact that it was only after the industrial-agricultural alliance seemed secured that the offer to the National Liberals was made, ibid., p. 478.

44 Gerloff, Finanz- und Zollpolitik, p. 139.

the trade policy of the country, or in the determination to realize these demands, we see it as our duty to explain that, solely for the reasons given, we did not and could not make the motions expected of us during the present session, but in the face of the trade policies of most of the neighbouring countries -- in recognition of the injury to the national welfare inflicted by the lack of a German tariff, and because of the duration of the crisis which continues to burden German business and agriculture -- we contend that a reform of the German tariff, which would be the result of careful investigation and proper consideration, to be necessary, and we have therefore decided to support this in the next regular session of the German Reichtag.

The twenty-seven National Liberals among "the 204" acted in clear disregard of their official party programme.

Not only was the party further split by controversy arising out of Bismarck's attempt to nationalize the railways, but Bismarck's own plans for the federal regulation of the differential railway rates were shattered as well by 1879. What furnished the connecting link in all these remarkably diverse issues was the Catholic Centre Party.

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46 17 October 1878, quoted in Reden, Bismarck, ed. Kohl, vol. 7 (1877-1879) pp. 341-42. Translation by the author.

47 Dorpalen, Treitschke, p. 214.


which embodied a microcosm of the new system of alliances for which Bismarck strove.

The appointment of a select committee to investigate contentious issues appears to have been a parliamentary device resorted to in both the House of Commons and the Bundesrat in order to lend an air of impartial justice to the outcome; a comparison produces interesting results. Whereas in the province of Canada this practice had been adopted also in 1849 to investigate the lumber trade and the cause of its depression,\textsuperscript{51} interestingly enough the Second Report of the Committee deplored the overproduction of lumber and recommended, among other things, the introduction of an export duty.\textsuperscript{52} The committees of the 1870s appear to have been somewhat more politically oriented.

In 1872 the House of Commons appointed a Select Committee to investigate "the extent and condition of the manufacturing interests of the Dominion,"\textsuperscript{53} and a similar Committee for the agricultural interests. The inquiries made of manufacturers and farmers seem to imply the purpose to

\textsuperscript{51} Province of Canada, Legislative Assembly, \textit{Journals}, 1849, p. 48.

\textsuperscript{52} Ibid., Appendix. PPPP.

\textsuperscript{53} Canada, House of Commons, \textit{Journals}, 1872, p. 17.
be connected with the popular desire for both reciprocity\textsuperscript{54} with the United States in natural products and for the development of Canadian manufacturing industries. Similar Committees under the Liberal government in 1874 were chaired by interested parties. Under A.T. Wood, a hardware manufacturer from Hamilton,\textsuperscript{55} the Committee investigating manufacturing interests recognized the burden of American dumping, but on the whole could find no reason to recommend the institution of a protective tariff; a commercial monopoly to the producer was no guarantee of cheapness to the consumer, and it was felt that the infant industries argument was no longer valid for most of the witnesses.\textsuperscript{56} G.T. Orton chaired the agricultural Committee, whose report expressed a mood of retaliation against the American "exclusive policy" of tariffs on natural products.\textsuperscript{57}

By 1876, when Macdonald began actively to call for a "readjustment" of the tariff, the motion for a Select Committee to inquire into the causes of the "present financial depression" led to a three-day debate on issues of economic

\textsuperscript{54} Ibid., Appendices Nos. 3, 4.

\textsuperscript{55} Heick, Mackenzie and Macdonald, p. 97.

\textsuperscript{56} Canada, House of Commons, Journals, 1874, App. 3.

\textsuperscript{57} Ibid., App. 2.
nationalism, and two Select Committees again resulted. The David Mills Committee was chaired by a convinced "free trader", was established to justify the existing tariff level, and was hence "an attempt to parry the protectionist movement". The question of free trade and protection was new to the House in 1876, and the lengthy debates only served to fasten public opinion on the unsatisfactory conditions of Canadian trade. Nevertheless, the Reports of both the Mills and the Orton Committees could find no economic reasons for the legislation of a protective policy, and several reasons against it. Regional factors were seen to play a great role in agricultural conditions, and the Mills Committee saw external factors such as unsuccessful investments, the independence of the shipping trades; and the unhealthy conditions in the United States which re-

58 Canada, House of Commons, *Journals*, 1876, p. 64.


sulted allegedly from their policy of tariff protection, as further arguments. The conviction behind Mills' economic arguments is reflected in his additional report:

... It has been suggested by some of those who have been examined before the Committee that, as the United States have refused to adopt a friendly commercial policy towards this country, we should adjust our tariff with special reference to the policy which is there pursued. As a matter of mere diplomacy, such a course might possibly find a justification in case it were followed by success; but the Committee are of the opinion that it could not be defended on economic grounds. The restrictions, if imposed, would not be less baneful in their consequences to both capital and industry here because the Government at Washington adopts a policy disastrous in its consequences to its own people and vexatious and hurtful to us. ... 64

As has been stated, the German investigative commissions originated in the Bundesrat, and their methods were even more blatantly political. Not beginning their work until the summer of 1878, the Commissions to investigate the conditions of the iron industry and the cotton and textile industries were claimed to be impartially going about their task65 amidst the fray of the Reichstag elections and the turmoil of political realignments. Bismarck, seeing the realization of his plans a growing possibility, placed great political stock in the outcome of these investigations.66 To

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64 Ibid., App. 3, p. xiii.
65 Böhme, Deutschlands Weg Zur Grossmach, p. 510.
66 Ibid., p. 515.
ensure success, the dice were loaded.

Chairman and member, respectively, in the Commission to Investigate the Iron Industry (Eisen-Enquete-Kommission) were Serlo and C.F. Stumm, both not only iron industrialists themselves, but also direct representatives of the Central Association of German Manufacturers (Centralverband Deutscher Industrieller) and of the Society of German Iron and Steel Manufacturers (Verein Deutscher Eisen- und Stahlindustrieller). The other members were Meier and Huber, both free traders; Bismarck himself requested the appointment of Schlör, a Bavarian protectionist, to balance Huber's vote. The structure of the Commission to Investigate the Cotton and Linen Industries (Enquete-Kommission für die Baumwollen- und Leinen-Industrie) paralleled this combination. 67

Not only was the Centralverband disproportionately represented on both the Commissions, but it was argued that, particularly in the case of the iron industry, the results of the interviews of "experts" would depend upon the questions asked 68 and the type of witness called. The Centralverband

67 Ibid., pp. 510-11.

68 Bueck, Centralverband Deutscher Industrieller, p. 398.
verband designed the questionnaire\textsuperscript{69} and its president saw to it that only protectionist heavy industrialists, not representatives of free trading small industries, were interviewed.\textsuperscript{70} In contrast to the Canadian Committees established by a Liberal government which opposed protectionism and argued from the viewpoint of the consumer, these Commissions were established from a protectionist point of view and argued for the producer.\textsuperscript{71}

The proceedings and the reports of the two Commissions make interesting reading, especially when it is kept in mind that the witnesses who testified as "experts" were also interested parties who were given the questionnaires beforehand in order to enable them to prepare and consolidate their arguments, presenting an air of unanimity. The increasing capacity of world production in the 1870s caused steel prices to bear a closer relation to production costs, and Germany was clearly at a disadvantage regarding the type and distance of her ore supply.\textsuperscript{72} Witnesses before the

\textsuperscript{69} Ibid., pp. 341-43; see also Böhme, \textit{Deutschlands Weg Zur Grossmacht}, p. 515.

\textsuperscript{70} Böhme, \textit{Deutschlands Weg Zur Grossmacht}, p. 515.

\textsuperscript{71} Gerloff, \textit{Finanz- und Zollpolitik}, p. 160.

iron industry Commission complained of their comparatively high costs, often arguing that costs were kept down by continuing to mass produce. But it was simultaneously denied that German industry was over-producing; such quarrels continued because industrialists feared the public stigma attached to such accusations implying their inefficiency. The Report of the iron industry Commission cites this and other problems faced by the German iron industry as justification for the reinstatement of the iron duties to protect the home market and production.

Contemporary critics cited the production and cost figures given by the Commission as unreliable, and accused the industrialists of abusing anti-English sentiment to bring about a chauvinistic anti-English tariff. The textile Commission, appointed ostensibly to determine the ef-

73 Germany, Eisen-Enquete-Kommission, Protokolle über die Vernehmungen der Sachverständigen durch die Eisen-Enquete-Kommission (Berlin: [1879?]) p. 14 and passim. A common complaint was that England was out to ruin German industry to save itself from its own overproduction, see p. 39.

74 Kestner, Die deutschen Eisenzölle, p. 6.

75 Germany, Eisen-Enquete-Kommission, Bericht der Eisen-Enquete-Kommission (Berlin: 1879) pp. 4-8.

fects upon the industry of the annexation of Alsace-Lorraine, 77 presented a further twist. The Report contradicted its own findings 78 to recommend a protective tariff 79 which most of the industrialists themselves did not see as a solution to their internal difficulties. The work of both Commissions was then superseded by Bismarck's Imperial Tariff Commission which was responsible for drawing up the tariff schedules for both industry and agriculture in 1879.

The approach of the Enquete-Kommission was ineffective with regard to fact finding, unlike what the English parliamentary type of investigation was supposed to be, 80

77 Germany, Enquete-Kommission für die Baumwollen- und Leinen-Industrie, Bericht der Enquete-Kommission für die Baumwollen- und Leinen-Industrie (Berlin: Julius Sittenfeld, 1879) p. 1: "... eine Untersuchung über die gegenwärtige Lage der gesamten deutschen Baumwollen-Industrie, also der Spinnerei, Weberei und Druckerei, namentlich in Berücksichtigung der veränderten Sachlage, welche durch den Anschluß Elsass-Lothringen an das deutsche Zollgebiet geschaffen worden ist, sowie der Leinen-Industrie zu veranstalten."


80 Lotz, Ideen der deutschen Handelspolitik, p. 156.
but was nevertheless a stroke of effective political policy. In practice, both the Select Committee and the Enquete-Kommission were useful political tactics, designed around an already decided government policy, to encourage and learn the wishes of its supporters.

As "it is rare for the public in a general election to concern itself with more than one or two issues,"81 the elections of 1878 were hardly exceptions. In Germany the cries of the social peril and tariff reform82 were connected as the basis for decision, and in Canada the struggle was "essentially between a revenue tariff and a protective one."83 The Canadian West remained politically on the periphery, voting against the Liberal railway policy.84 New Brunswick had little to gain from flour and coal duties which benefitted Ontario and Nova Scotia respectively.85 But although it was not a great voter revolution,86 the

81 Cartwright, Reminiscences, p. 103.
82 Taylor, Bismarck: Man and Statesman, p. 175.
84 Ross, Getting Into Parliament, p. 105.
85 Beck, Pendulum of Power, p. 34.
victory was decisively for Macdonald's vague yet all-encompassing plan of action.

By 1879, then, both Parliament and Reichstag were operating with public mandates to carry through national policies of tariff protection. The tone of the respective debates provides an opportunity to observe the diverse fears and expectations which such an awesome responsibility entailed. For years arguments had ranged across an entire spectrum, from protection benefitting every class,\(^87\) to protection benefitting no one at all.\(^88\)

Just as German protectionists were doing, in Canada the possible effect of tariff protection on the consumer was kept in the background.\(^89\) Or it was boldly contended that the resulting competition,\(^90\) or at least increasing domestic trade,\(^91\) would keep domestic prices from rising

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89 Ross, Getting Into Parliament, p. 98.


91 John A. Macdonald, in House of Commons, Debates, 23 April 1879, p. 1465.
as a result of the tariff. Bismarck claimed he would consolidate the Reich by replacing the system of matricular contributions with a federal system of taxation,\footnote{Bismarck, in Reichstag, Stenographische Berichte, 2 May 1879, pp. 927-28.} preferably indirect.

Canadian Conservatives argued in similar national terms that East and West "had something as a nation worth preserving, and that, in the interchange of their products, in the arrangements of their measures of finance, and in all their fiscal economies, they must practise a system of reciprocity \footnote{John McLennan (Glengarry) in House of Commons, Debates, 18 March 1879, p. 519.} and self-protection\footnote{W.B. Ives (Richmond and Wolfe, Que.) in House of Commons, Debates, 26 March 1879, p. 699.} within themselves. ...\footnote{David Mills (Bothwell) in House of Commons, Debates, 1 April 1879, p. 885.} The collective good was extolled by Conservatives who held that a tariff does not discriminate against one section "if it is for the good of the whole country." Mills retorted that if this interprovincial trade were so necessary politically, then it would be unnecessary for the Conservatives to include in the tariff a statutory offer of reciprocity with the United States.\footnote{David Mills (Bothwell) in House of Commons, Debates, 1 April 1879, p. 885.}
Finance Minister Leonard Tilley's budget speech embodied the dual purpose of the proposed tariff for both revenue and "the protection of the industries of the country". Mackenzie had pointed out the contradiction already in 1876, and Cartwright repeated it in 1879, without receiving any comprehensive reply from Macdonald. It was similarly claimed in Germany that there was no contradiction greater than Bismarck's attempt to secure the revenue through tariff protection.

Furthermore, what was in reality a series of very complex problems was being reduced to a dichotomy between free trade and protection. The Mills Committee had investigated this in Canada in 1876, and the agrarian Knauer-Groebers saw this fallacy committed by his German colleagues

96 House of Commons, Debates, 14 March 1879, p. 411.
97 House of Commons, Debates, 7 March 1876, p. 499.
98 House of Commons, Debates, 23 April 1879, p. 1465.
100 Canada, House of Commons, Journals, 1876, App. 3, Report of the Select Committee on the Causes of the Present Depression of the Manufacturing, Mining, Commercial, Shipping, Lumber and Fishing Interests.
in this respect as well. In the German iron and textile industries alike there were difficulties independent of any tariff protection.

Critics of the protective tariffs in both countries foresaw that regional inequalities were bound to result:

... No theory of national production can erase the fact that the economic interests of the various parts of our Fatherland diverge, that the German Reich is not such an economic entity that you can turn it in upon itself without hurting the country. ... The coastal regions. ... in fact lie closer to Sweden and England than to Augsburg and Saarbrücken, not only geographically but in fact also in our economic interests.

How familiar this line of argument sounds when transposed into Canadian terms! In the Canadian House of Commons E.P. Flynn (Richmond, N.S.), though in disagreement with Douall, his fellow Nova Scotian, went so far as to claim the imposition of the high duties contained in the National Policy "a violation of the compact by which Nova Scotia was induced to go into Confederation."

101 Ferdinand Knaur-Groebers, Contra Delbrück oder Finanzzöllner gegen Freihändler und Schutzzöllner in Beziehung auf den Getreidezoll (Berlin: Verlag Julius Bohn, 1879).

102 Bayerdröffer, Schutzzoll und Freihandel, p. 3.

103 Gensel, "C. Rohstoffe und Erzeugnisse," pp. 73, 137-8.

104 H. von Maltzahn-Gültz, in Reichstag, Stenographische Berichte, 6 May 1879, p. 1014. Author's translation.

105 House of Commons, Debates, 18 March 1879, p. 515.
Class antagonisms, it was also claimed by critics of the tariffs, would be enhanced by their enactment. Ludwig Bamberger, as a German National Liberal, saw an inherent contradiction in Bismarck's attempt at mass taxation while claiming to protect the broad mass of the lower classes, since an egalitarian tax would fall more heavily upon poorer classes. In Canada Richard Cartwright objected to the principle "that it is the duty of the Government to enable certain sections of the community to tax the rest of the people for their private gain." He perceived this discrimination against the "poorer classes" especially regarding coal, flour, and woollens. Alexander Mackenzie noted the impossibility of protecting all classes, and another Member saw the National Policy as a "huge bribe" by which "the great masses of the country were defrauded, in order that the manufacturer, the shipowner, the coal-miner and others might have their profits increased."


108 Ibid., p. 473.

109 G.W. Ross (West Middlesex) in Debates, 21 March 1879, pp. 635, 637.
Cartwright saw the makings of a social revolution which would "alter the distribution of wealth" and which already recognized "the leading ideas of Socialism". In typical liberal fashion he deplored the notion of a Government making its duty the maintenance of "dangerous classes of shiftless and idle men... without self-reliance". In the Reichstag Bamberger similarly rejected the sudden upheaval of fundamental economic, fiscal, and tax legislation. Others as well saw the role of the German state as developing a spiritual kinship to socialism.

The same German writer saw the political worth of making the privilege of tariff protection seem a patriotic deed, the presumption of a higher patriotism by protectionists, especially in their claim to "protect the national labour", embittered the debate immensely. It was almost

111 Stenographische Berichte, 3 May 1879, p. 951.
113 Ibid., p. 12.
as if the words "German" and "national" contained "a magical connotation which won over hearts and not infrequently held reason captive". 115 In Canada Tilley had used an appeal against the future of Canadians as mere "hewers of wood and drawers of water" 116 without the development of their own national industries. Mackenzie retorted by attempting to broaden the scope of the argument, declaring himself "not content to have Canada for the Canadians." 117 Even in 1876 he had objected to the term "National Policy" as misleading on the part of the Conservatives:

... Well, Sir, who doesn't advocate a national policy? Who is there that never did? The right hon. gentleman considers that he advocates a national policy which was right and that nobody else was capable of doing so. Every Government has advocated a national policy. ... 118

A Member of Parliament nevertheless depicted the Liberal anti-protectionism as an indication of their anti-nationalism. 119

115  Maltzahn-Gültz, in Stenographische Berichte, 6 May 1879, p. 1013. Translation by the author.


118  Debates, 7 March 1876, p. 497.

119  G.A. Gigault (Rouville) in Debates, 27 March 1879, p. 766.
Alexander Mackenzie was warned of the power of the Conservative approach to the tariff issue:

So far as the weight of honest argument is concerned, we could easily explode their fallacies, but we cannot influence many of the narrow-minded or the selfish.\textsuperscript{120}

Even Richard Cartwright's economically valid appeal for export bounties to replace some of the import duties,\textsuperscript{121} and the appeal of another Member for the taxation of immigrants to protect domestic working classes\textsuperscript{122} went unheeded.

These issues common to the debate in both Canada and Germany bring to light some of the inherent assumptions connected with the ideology of material progress, which more divided conservatives from liberals, than Canadians from Germans. Tilley was expressing a vision of a progressive Canadian future, which he felt needed only to be acted upon to be realized, in order for Canadians "to rise to be what I believe we are destined to be under wise and judicious legislation".\textsuperscript{123} It was a conservative assump-

\textsuperscript{120} G.W. Ross to Alexander Mackenzie, 18 December 1876, Mackenzie Papers, p. 1470.

\textsuperscript{121} Debates, 14 March 1879, p. 440.

\textsuperscript{122} T. Oliver (N. Oxford) in Debates, 26 March 1879, p. 708.

\textsuperscript{123} Debates, 14 March 1879, p. 429.
tion that "it was the duty of every Government to establish and foster the incipient manufactures". Similar assumptions were expressed in the German Reichstag:

We must produce iron ourselves, even if in the long run we cannot afford it on terms as advantageous as foreign countries can.125

Eugen Richter, a prominent member of the Conservative Party, recognized that the tariff question was a question of power, for "money is power, and with money shall the question of power be decided."126

While Canadian society did not share the extremes on the left and right of the political spectrum, as were contained within German society, Canadian conservatives, as the "exponents of the philosophy of industrialism",127 in many of their assumptions along these lines resembled German elements like the Free Conservatives, and to a point the right wing of the National Liberals, though the Canadians were less idealistic. And the fact that in Quebec, as has been observed, the policy of tariff protection was re-

124 F.W. Strange (N. York) in Debates, 21 March 1879, p. 629.

125 Reichensperger (Olpe) in Stenographische Berichte, 3 May 1879, p. 949. Translation by the author.

126 Stenographische Berichte, 5 May 1879, p. 986. Translation by the author.

lated to le programme catholique\textsuperscript{128} would perhaps warrant further work in comparing the social doctrines of the German Centre Party.

These assumptions did not by any means necessarily include the development of industry per se, but of heavy industry and railroads. Domestic sugar refining, for instance, was "discouraged" by tariff duties on raw sugar early in the 1870s,\textsuperscript{129} and by the mid-1870s it was still a major point of contention of A.G. Jones of Nova Scotia that the "legislation against the sugar interests" was discriminatory while "Canadian manufactures and productions were protected".\textsuperscript{130}

Not only were the promises vague and often contradictory, but protectionists themselves could not agree\textsuperscript{131}

\textsuperscript{128} Cooper, "Early French-Canadian Advocacy," pp. 539-40.


\textsuperscript{130} A.G. Jones to Alexander Mackenzie, 27 April 1875, Mackenzie Papers, pp. 788-91; for the argument concerning Jones and the sugar tariff, see K.G. Pryke, "Federation and Nova Scotian Politics," a paper given at the Atlantic Studies Conference held at Fredericton in 1974, pp. 19-20.

\textsuperscript{131} Dorpalen, Treitschke, p. 215; Bismarck's main aim in economic terms was revenue, in Stenographische Berichte, 2 May 1879, p. 927; Kardorff's was for protection, in Wilhelm von Kardorff, Siegfried von Kardorff, p. 124.
on the purposes, the inherent priorities, and the expected results of the protective tariffs of 1879. The actual outcome remains to be seen in the attempt to set the notion of protection into its larger context in the 1870s, for the tariffs were but an expression of a more inclusive attitude.
CHAPTER VI

THE NOTION OF PROTECTION AND THE TARIFFS OF 1879

The notion of a protective system, or movement, seen by Polanyi as a reaction against the social trauma entailed in the Industrial Revolution, had its unique expressions in both Canada and Germany. Both were in the 1870s newly formed federal entities challenged, not only by the material and ideological ramifications of new technological advances after mid-century, but also by the material and ideological problems of the national integration of diverse and sometimes opposing elements. Consequently the practical use of the concept of tariff protection was, as has been aptly expressed, "as shorthand for the pervasive protective mentality characteristic of élite control."¹ To speak of a coherent protective "system" would be to underplay the spontaneity of the Western protectionist trend, but it seems that precisely for these reasons of national integration, in both Canada and Germany the emphasis on the protective tariff has tended to obscure other symptoms of the

protectionist neurosis, as well as to exaggerate expectations regarding the tariff.

Bliss's description\(^2\) of irrational insecurities experienced by Canadian businessmen during the last quarter of the nineteenth century will be recalled, and their German counterparts are not difficult to locate in the contemporary literature. While opposing Bismarck's tariff on economic grounds, one writer called for security and an end to the confusion caused by the series of fantastic fiscal projects.\(^3\) Another wanted protection, but not necessarily through tariffs; rather, improved transportation and government regulations to aid domestic production were recommended as more natural means of protection.\(^4\) A third complained that tariff changes were being made not as a result of specific demands of the industrialists concerned, but as fruits of a vague principle which had become generally accepted: the protection of national production. More effective, he felt, would be trade agreements and internal industrial improvements.\(^5\) Hardach noted that the word "pro-

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\(^2\) Bliss, "'Dyspepsia of the Mind'," and A Living Profit.


tection" (Schutz) embodied a moral feeling of security; the protective tariff was an elixir with the effects of mass psychology. The remarks of protectionists approached a faith perhaps as blind as those who claimed to be free traders. One member in the Canadian House of Commons did "not care how much duty they put in order to protect the other industries, if the industries of his Province were protected." Tariff protection represented national policy, and national policy was the crystallization of the national idea. Through the protective tariff were linked foreign and domestic policy in the use of the state, ostensibly to protect the nation against foreign economic intrusion. But there were other, perhaps more subtle, or at least less blatant, expressions of the protectionist mentality. The Canadian Patent Law of 1872 has been mentioned as an important auxiliary of the National Policy, and it formed a complement of the tariff in "an implicit plan for the use of foreign capital behind protective walls". That foreign

6 Hardach, Bedeutung wirtschaftlicher Faktoren, p. 148.
7 R. Douall (Pictou) in Debates, 18 March 1879, p. 515.
8 McLean, Tariff History of Canada, p. 22.
9 Scheinberg, "Invitation to Empire," p. 222.
economic domination was not seen as a threat from within, until later in the twentieth century, is suggested by a Member's remarks in the House of Commons:

The National Policy has begun to do its good work. I have just sold my factory, which had been idle for five years, to three Americans from Lakeport. The Americans, if debarred from our market, would start manufacturing interests here.\textsuperscript{10}

In Germany the revision and consolidation of the Patent Laws, begun in 1872 and completed in 1877, was also perceived in connection with the tariff and the notion of protection. A bitter debate was sparked by opponents of the protective tariff who wished to see the issues kept separate.\textsuperscript{11}

The role of the reform of the system of differential railway rates in Bismarck's fiscal plans has also been mentioned. The defensiveness of the German iron industrialists regarding discrimination in favour of foreign freight on German railways furthermore formed a major complaint before the iron industry Commission.\textsuperscript{12} As it did in Germany, the issue in Canada took on ideological connotations. In

\textsuperscript{10} J.C. Rykert (Lincoln) in \textit{Debates}, 27 March 1879, p. 794.

\textsuperscript{11} \textit{Stenographische Berichte}, 2 March 1877, pp. 25-28.

\textsuperscript{12} \textit{Eisen-Enquete-Kommission, Protokolle}, passim.
1877 the protectionist Aemilius Irving (Hamilton) moved in the House of Commons that it is expedient to make provision for the more effective securing the observance by railway companies of the law requiring equality of treatment in the management of traffic and imposition of rates and tolls; . . . and to vest in the Exchequer Court of Canada the power necessary for enforcing such observations.13

Irving pointed out that flour was not carried at as cheap rates from Ontario to the Maritime Provinces as it was from Chicago. This discrimination interfered with the progress of Canadian trade while it was also a disregard of the law. Were the law carried out it would be a greater protection to the Canadian miller than an extra duty on each barrel of flour.14

Another Member added that if there was one protection the farmers desired and needed more than another, it was protection in the way of lower rates for carrying their products to the markets of the world. . . . 15

The same was said to be true for manufacturers; . . . The United States manufacturers could send their goods to Canadian markets at a less rate than the Canadian manufacturers could land theirs at the same points.16

13 Debates, 16 April 1877, p. 1521.

14 Ibid., p. 1522.

15 T. Oliver (Oxford) in Debates, 16 April 1877, p. 1526.

16 R. Stephenson (Kent) in Debates, 16 April 1877, p. 1527.
Mackenzie himself rose to make short shrift of the attempt to increase state interference in the economy: he differed in toto from the conclusion of the hon. gentleman. He had arrived at the conclusion that no Government should have anything to do with the governing or control of commercial affairs; and there was no more reason why a Government should work a railway than a cotton mill. They were both commercial enterprises, and both had better be managed by commercial men. . . . 17

The fundamental disagreement between protectionists and their opponents in both countries was over the degree to which the state was bound to play an active role in the development of the national economy. Because, for reasons given, the protective tariff became the representative issue in the greater controversy, these opponents, who were usually some sort of liberal as well, were tagged as "free traders." We have, though, already seen that neither in Canada nor in Germany were free trade or laissez-faire policies developments natural to the circumstances. Even Alexander Mackenzie qualified his adherence to free trade "as closely as the circumstances of the Country will permit." 18 But this fundamental disagreement between "liberals"

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17 Debates, 16 April 1877, p. 1528.

and "conservatives" was, as such, a disagreement over what the nation itself was to be, a struggle which has been borne out more dramatically in Germany, owing perhaps to later developments. Yet even in Canada it was the tariff issue which occasioned Cartwright's "politically dangerous assertion that Canada might be destined never to become an urban and manufacturing nation": 19

"[there is] ... doubtful and precarious gain ... in towns and cities. ... I think we should be very much better off on the whole if we had fewer shopkeepers, fewer physicians, and fewer lawyers, and more farmers and more artizans. These are the men who produce the real wealth of the country." 20

In contrast, "one of the Conservatives' objectives was diversification through tariff protection to manufacturing industry." 21 It was, in the immediate sense, the representative issue of tariff protection which in both cases altered the political balance against the liberal view.

In Germany the political balance in the new Reichstag from 1878 was held by the Centre Party, so long inimical to the Reich and its Prussian founder. In 1879 the Centrist leader Windhorst declared the Centre prepared to

19 Goodwin, Canadian Economic Thought, p. 67.

20 Cartwright, speech at Colborne, 9 July 1877, in Reform Government in the Dominion, p. 108.

21 Goodwin, Canadian Economic Thought, p. 128.
support the government "in issues pertaining to the basis of the State ... the Throne, the Fatherland, and the most vital interests of the entire nation." A subsequent amendment to the tariff bill was proposed by von Frankenstein of the Centre, and intended to limit the customs revenue attributable to the Reich annually to 130 million Mark, the rest to be provided by the continuation of the matricular contributions; the Centre's antiunitarian proposal had obvious appeal for National Liberals concerned about the surrender of the Reichstag's power over the budget, a threat implicit in the tariff bill. Sixteen National Liberals supported the bill with the Franckenstein Clause, and the next day fifteen of those left the Party. The rebels included Heinrich von Treitschke and others like him who put aside their more liberal goals in the hope that Bismarck's national approach might eventually achieve these as well.

Many of the National Liberals who opposed the tariff did so for non-economic reasons; the perpetuated system of matricular contributions strengthened the states at

22 Stenographische Berichte, 6 May 1879, p. 1066. Translation by the author.

23 Dorpalen, Treitschke, p. 215.
the expense of the Empire, and their link to the tariff changed their entire meaning and intent. Even Bismarck was among others who supported the Clause so as not to endanger the tariff reform; he hoped its less desirable implications could eventually be overcome.

Politically, then, everyone compromised, but some more than others. It was an age when practical difficulties tempered or broke the idealism of those who attempted to harness liberalism and nationalism as one political force. Such was the fate of the German National Liberals, who, unchanged, had a usefulness which belonged to another age. Parallel on a smaller scale was the fate of the aggressive nationalism, more accurately an English Canadian exclusiveness, of the Canada First movement; closer harmony with political realities after 1871 brought this group of idealists toward a complete complicity to John A. Macdonald. The culmination was their ideological support of the National Policy as the closest practical approximation to Canada.

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24 Ibid.


First's vision of the Canadian nationality. The Canadian Liberal Party too was condemned to play the Opposition until after the close of the Macdonald era, and even then to reckon in terms of the National Policy.

In the House of Commons the agrarian protectionist Orton "remembered the time that to speak about protection to the agricultural interest was considered heresy," and another supporter of the National Policy argued that, through "the development and protection of our manufacturing, mining, and agricultural interests," "we expected largely to supply our own wants." Macdonald argued that "... Those who wanted to get protected wanted all the protection they could get," and played upon the growing perception that industry and agriculture, together prosperous, could be mutually, and hence nationally, beneficial.

In Germany, although even by 1879 there was the acute possibility of a break in the industrial-agricultural alli-

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28 Debates, 1 April 1879, p. 873.

29 A. Longley (Annapolis), in Debates, 3 April 1879, pp. 974-75.

30 Debates, 7 May 1879, p. 1821.
ance, this was not so much a dispute over the protective tariff as over the height of the duties being bargained for.\textsuperscript{31} The result was literally an exchange of votes in the Reichstag;\textsuperscript{32} this bartering shocked some observers, that "even in the land of poets and thinkers things are sometimes brought about in a very American way."\textsuperscript{33}

So Bismarck had achieved the financial stability of the Prusso-German army, not to mention its unique social and political position as an aristocratic, conservative, authoritarian structure.\textsuperscript{34} And Macdonald could protect his Canadian half-continent, not with an army, but with a railroad, population and freight, and the revenue to pay for it;\textsuperscript{35} these were the tools of defensive expansionism.

There were economic compromises inherent within the new protective systems too. The Canadian tariff soon "seemed to exist in large part as the repayment of subsidies given

\begin{itemize}
\item \textsuperscript{31} Maenner, \textit{Deutschlands Wirtschaft und Liberalismus}, p. 36.
\item \textsuperscript{32} Rathmann, "Übergang Deutschlands," p. 946.
\item \textsuperscript{33} Mender, \textit{Das moderne Zollschutzsystem}, p. 214.
\item \textsuperscript{34} Rosenberg, \textit{Grosse Depression}, pp. 190-91.
\item \textsuperscript{35} Aitken, "Defensive Expansionism," p. 102.
\end{itemize}
by the manufacturing interests to the Conservative Party." 36 Pig iron had to date been on the free list, 37 and was now taxed two dollars per ton, while iron manufactures were taxed up to thirty per cent, and steel was to be added to the duty list as of January 1881. 38 Duties were small on primary iron and steel, where imports were heavy, and were highest on finished consumers' goods of widespread consumption. 39 Subsidies to the steel industry, drawbacks, and loopholes in the tariff schedules were used to encourage domestic manufactures from imported materials, and these became permanent features 40 of the protective system. Complaints arose, not only that British and American exports suffered as a result, 41 but moreover that the poorer Canadians suffered as well. Coal,

36 Bliss, "'Dyspepsia of the Mind'," p. 175.


38 An Act to Alter the Duties of Customs and Excise, Canada, Statutes, 1879, 42V1C-c15, p. 141.


40 Stovel, Canada in the World Economy, p. 102.

41 Young, Public Men and Public Life, p. 335; see also Debates, 1879, pp. 633-34.
flour, bread, and clothing were not only necessities of life now being taxed, but the duties on cotton clothing were thirty per cent, on woollens and woollen clothing twenty to twenty-five per cent, while on jewellery only twenty per cent. Malt for major breweries was taxed less than barley, and fancy wares less than earthenware, so that farming and lower class interests felt at a disadvantage.

Duties on coal, and the proximity of iron ore deposits, left the Maritime provinces hoping through the National Policy to become the industrial centre of Canada for the manufacture of textiles and iron and steel products. The transfer of the Maritime economy from a mercantile to a manufacturing base in response to the federal tariff policies was distributed most unequally and failed to take root for reasons both local and more far-reaching. The Canadian transportation system was not national; it preferred Boston and New York to Halifax. Moreover, Montreal interests soon moved in to control the railways and the coal fields with the finances which were lacking locally.

42 Mackenzie, in Debates, 14 March 1879, p. 471.


goal of economic integration obviously had its negative side, especially from the point of view of the debtor regions such as the Maritime provinces. The transportation of coal from the United States into southern Ontario seems not to have been affected by the tariff at all.  

It was Central Canada which was being assured a future as the industrial heartland of a transcontinental nation, and it was the Canadian consumer who paid the way. The argument that "if Ontario was prosperous, the other provinces would be too" had a double-edged meaning whose more painful side was certainly not obvious to most Canadians until the 1880s. The tariff on wheat was fifteen cents per bushel, still at a comparative disadvantage to the American, which rose to twenty cents by 1883. Canadian farmers had clamoured for protection parallel to industry since 1874, and through the 1880s agricultural duties were raised. But increased protection and bounties to the iron and steel industry resulted in combines by 1883, which the farmers resented.  

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47 F. Houde (Maskinongé) in *Debates*, 1 April 1879, p. 871.

placed the American imports in the Maritime markets, the Ontario farmer seems to have been more affected by fluctuations in the American tariff than by his own. Macdonald's denial that prices of flour and bread would increase, because Canadians would "use no American flour, paying 50¢ a barrel, but eat Canadian flour, on which there was no tax," seems to have evaded the corollary that increased transportation costs would be involved in the redirection of trade.

Competition increased and prosperity was subsiding by 1881; agrarian discontent was rampant, and more radical organizations were formed to voice the grievances of Canadian farmers. The manufacturers, supposedly the greatest beneficiary group under the National Policy, were


51. Debates, 18 April 1879, p. 1364.


meanwhile concerned to have the permanence of the Policy guaranteed, as lesser segments began to chafe under its very existence.

The German tariff followed similar principles of moderate protection for industry and agriculture alike, with raw materials for industry, including coal and iron ore, admitted free. Industrial imports were taxed an average of ten to fifteen per cent, and specific duties on iron and steel products were reinstated. Tariffs on wood lacked quality distinctions, and fell relatively higher on poorer classes. It was moreover contended that not only was there no positive statistical proof that a tariff on wood was necessary, but that Germany was notoriously unable to fill its own needs regarding wood; this was one example where the tariff offered no "protection to national labour", rather benefits only for certain indi-

54 Bliss, "'Dyspepsia of the Mind'," p. 178.


56 Lambi, Free Trade and Protection, pp. 189-90.

57 Troje, ed., Zolltarif, pp. 64-67.
While the industrial tariffs helped the capitalist expansion of certain individuals, the agricultural duties helped not all agrarians, but only the larger landholders. Decreasing world freight costs provided the competition which offset any protection the tariff might have offered, so that by 1885 grain duties were increased threefold from the moderate three to five per cent. The higher food prices which eventually resulted from steadily increasing agricultural tariffs gradually worked to uncover a contradiction suppressed by the industrial-agricultural "alliance" of 1879. Henceforth the tension arising from a deep agricultural-industrial dichotomy grew as a factor in German politics; the price of Bismarck's collective politics was a division between supporters and opponents of the state itself. This cleavage grew ever sharper through the new practice of politics by economic


59 Mender, Das moderne Zollschutzsystem, p. 222.

59 Mender, Das moderne Zollschutzsystem, p. 222.

60 Brentano, Die deutschen Getreidezölle, p. 10.

interest groups which developed from the tariff issue of 1879.62

In Canada a trichotomy between industrial, agricultural, and the older mercantile interests was compounded more by regional than by social tensions, or at least appeared so because of the vast distances which separated some of these groups. While the assumption was that a Canadian national economy would be made possible by tying the various specialized regions into a singular interdependent system,63 the National Policy has subsequently been called a policy of Central Canadian imperialism.64 The Maritime provinces were the least integrated in the new nation, hence the most dependent upon the National Policy65 to be truly national. The circular difficulty, in both cases, of defining "the national interest" through policies designed to consolidate and define the nation itself, of trying to protect that which has yet to be iden-

62 Böhme, Deutschlands Weg Zur Grossmacht, p. 585.
63 Easterbrook and Aitken, Canadian Economic History, p. 376.
65 Achéson, "Industrialization of Maritimes," p. 27.
tified, thereby to identify it, becomes apparent. 66

Internally, at least, the "protective systems" typified in both Canada and Germany by the protective tariffs of 1879 were not "national policies" which benefitted every faction. Nor could they be, given the practical impossibility of satisfying a diversity of conflicting needs. It is when viewed externally that the notion of protection takes on its national context. The reclamation of domestic markets for domestic production was the immediate result of material difficulties, but in a larger sense seems to have been a reply, consistent with the generally prevailing mentality, to questions posed within federal entities whose points of congealment left them with a predominant conservative leader and a nation diversified widely enough, when the depression hit, to force this type of solution.

In Canada this meant that reciprocity with the United States in natural products, a statutory offer contained in the tariff act, though still desirable, was deemed to be no longer essential 67 to the national existence. And though


the issues were legally unconnected, the advent of Mac-
donald's protective tariff coincided with the publication
of new Imperial instructions to the Governor-General. Ed-
ward Blake had worked since 1876 to remove the clauses sus-
pending automatically tariff legislation imposing differen-
tial duties or clashing with treaty obligations of Great
Britain, 68 and he had succeeded in 1878. For domestic
reasons not unrelated to a waning faith in free trade,
Britain was interfering less in the economic affairs of the
senior colony, but the connection of the two developments
was made by Canadians from a more nationalistic standpoint. 69
The National Policy was the expression of a larger intro-
spective trend, and through the eyes of perhaps everyone
but Canadians themselves, can be said to have been true to
its name.

Similarly it was the crux of Bismarck's policy of ta-
riff protection, not that the tariff duties be raised, but
that the nation could be consolidated on a basis which he
felt best expressed what Germany was meant to be. The
conservative elements which he saw as the only possible

68 David M.L. Farr, The Colonial Office and Canada,
69 Ibid.
stronghold of the national existence, surrounded by foreign nations with identities of their own, were supported in his view not by liberal-conservative industrialists nor by ultramontane conservative magnates, landholders, and politicians, but above all by the Protestant east-Elbian landed aristocracy. The internal system of alliances expressed by the realization of the tariff, saw the completion of the Reich foundation in an amazingly short time, and "public opinion" responded accordingly with enthusiastic acceptance. 70

70 Böhme, Deutschlands Weg Zur Grossmacht, pp. 538, 574.
CHAPTER VII

CONCLUSION

Colony and Reich: can a colonial statesman have anything in common with a "real" statesman? If the reply must be negative, then perhaps Canada's has been a paradoxical existence, that of a nation of colonials. But perhaps the realization that non-colonial nations have experienced similar dilemmas and anxieties can shed new light upon the Canadian national existence; the motivation for this undertaking has been the conviction that in their first decade as federal entities, Canada and Germany shared in a spirit which transcended legal status. The goal was the creation of the nation, the method the use of the state, and the tool a protective tariff which purported to provide a unifying factor relevant in an age of materialism and material difficulties in the form of a depression which seemed to tear at the delicate legalistic ties which held the federal members.

The problem of the American presence in the nineteenth century, for example, can become distorted when seen solely in the Canadian context. The obsession displayed in particular by German industrialists concerning the efficiency
of British industry and the titres d'acquits à caution enjoyed by the French iron industry was a localized reflection of a more widespread defensiveness in Germany as well on the agricultural front.¹ Frequent allusions to the necessity of moving, as a nation, into the ranks of these powerful nations, and of the active role to be played by the state to enhance this process, in which was idealized the development of heavy industry as a means toward this goal, characterized the national debate from the view of protectionists in both countries.

In some ways Canadians seem not to have outgrown their version of this introspective phenomenon; in many ways instead they have defined the universe of their outlook by a continual reference to their powerful neighbour. The National Policy served ultimately to bring difficulties closer to home by failing to produce a nation strong enough to harness the internal powers of foreign investment. But so too were the German frames of reference soon altered, eventually to exceed the scope of Bismarck's own definitions.

Already after 1880, neither Macdonald\(^2\) nor Bismarck\(^3\) was as free to act as he had been in the 1870s. Each had come to personify the national structure he had been instrumental in designing, and each was in a position which required the reconciliation of actions with this established framework, against opposition which took new forms as well. Problems of provincial rights and Reichstag factions loyal to their own material interests had now to be worked out against new backdrops intended to be permanent.

The National Policy represented the functional integration of a decision by the Canadian government to foster the industrialization of the country, as the basic step toward the furtherance of fundamental and persistent governmental aims;\(^4\) in this larger context the tariff was to be a permanent\(^5\) feature. It is not at all clear that this was


consistent with what agrarians in Canada or Germany\textsuperscript{6} needed or had even bargained for; indeed, few tariffs withstand public opinion in bad harvests.\textsuperscript{7} But moreover these were tariffs which were not mainly educative in the sense of List and Mill; their economic significance was in the attempt to compensate for natural inequalities\textsuperscript{8} which were seen to hinder international competition. These tariffs were intended as well to consolidate and preserve\textsuperscript{9} the consumptive and productive potential of the national entity.

The integrative role of the railways in the relationships constituting the protective mentality has already been touched upon. What is interesting as well is the point of departu\textsuperscript{e}re provided by the criterion of population-oriented policy. The National policy was intended "to increase the number of jobs in the country in order to prevent the emigration and promote the immigration of both labour and capital."


\textsuperscript{8} Barth, "Entwicklungsgeschichte," p. 11.

\textsuperscript{9} Mender, \textit{Das modern Zollschutzsystem}, p. 118.

But the years after 1879 were, like those before, "years of frustration" in this regard until well into the 1890s; this was so for both internal and external reasons. The challenge to fill up the West with potential Canadians was the third prong of the protectionist "system", which Aitken has called a policy of defensive expansionism. In this light the importance of the transcontinental railway creeps in once again, not as an alternative to no railway at all, but rather as an expensive alternative to American railways.

Bismarck too saw the attempted unification of the German railways and the institution of the protective tariff as parts of a nuclear programme, "points of departure for the full coordination of all economic activities, internal and external," as "Germany was getting ready to take her place in the sun." Whereas the Canadian 'colonizing'

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process was necessarily introressive as far as the North American continent was concerned, the tariff question in Germany was also directly related to the colonial question, an extroversive extension of the protective system. Almost all the tariff protectionists in Germany were also supporters of a colonial policy after 1879; the concurrence of the two movements was not coincidental, but contained in the nature of the entire protectionist argument. Fears of overpopulation, or at least the fact that there was no lack of population, brought about the peculiar reversal which provides in the comparison of the Canadian situation an interesting variation. Canadians, though, participated in the general imperialistic sentiments which, even in the Canadian colonial circumstances, by no means necessarily contradicted Canadian nationalism.

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Related to the issue of immigration was the situation of labour, particularly in Canada. While in Germany the social insurance policies of the 1880s were effective social welfare measures, intended ideologically as well to provide a connecting link between the past and the present, between old and young workers, through the state's 'permanent identity', the decade in Canada, in typically British parliamentary fashion, was one of social welfare inquiries, with some legislation. Although the relationship between the Conservative Party and Canadian labour did not survive much beyond the 1870s, in the 1882 election campaign, "Macdonald could point with special pride to the great benefits to labour which were flowing directly from the protective tariff of his National Policy." Yet already in that same year workers in Nova Scotia were objecting to the policy of importing labour as harmful competition to domestic labour.

If Canada even today lacks the adequate theoretical framework necessary to cope with the economic problems of

regionalism, we may learn from the fact that German policy makers showed concern already in the 1870s, though their methods may not have been the best. It was argued in the government motive that a more finely detailed tariff schedule would avoid regional discrimination. But, as in Canada, where what active economic role the Maritime provinces had enjoyed was eclipsed by the more rapid advancement of the central region soon after the National Policy took its form, Bismarck’s policies of the later 1870s also represented a shift in emphasis from the free trade represented by the mercantile Hanseatic cities to the heavy industry of the Rhineland.

A common problem thus inherent in both national policies was the permanent establishment of a federalism unbalanced. In the 1880s, there existed an “almost total absence of any inter-regional migration in eastern and central Canada”; but political advantages for Ontario and Que-

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24 E. Heukeshoven, Die Deutsche Zolltarif-Reform vom Jahre 1879 (Breslau: J.U. Kern’s Verlag, 1880) p. 3.


bec led to arguments for special compensation for the other provinces. The result has been called an "appalling collection of crutches to compensate the alleged losers: freight rate acts, floor prices, transport subventions, gold-mining subsidies, equalization payments . . . it is regional blackmail. . . . 27

A solution to old problems, 28 the new nationality created new ones. If the protective tariff was a centralizing factor in its effect of bonding Ontario and Quebec closer to the federal capital, then in all important political senses, "its effect on Outer Canada was almost certainly contrary." 29 Bismarck's federalism suffered a similar fate, for despite him it

failed to surmount not only the contradictions inherent in any federal system, but also those which were peculiar to Germany. . . . Less than a decade after the completion of the Reichsgründung the Prussian state had ceased to be the servant of the Reich; it had become its master. This was not Bismarck's intention. 30


29 Black, Divided Loyalties, p. 223.

30 Windell, "Bismarckian Empire as a Federal State," p. 293.
Wilhelm Mommsen points out that a true federalism can be realized only when, as in the case of the United States and Switzerland, the member states are, relative to one another, similar in size and power. By these criteria, Bismarck's Germany, not only constitutionally but also with its territorial and population distribution weighing heavily toward Prussian hegemony, could never qualify as a true federalism. The real struggle was not federal versus unitary, but centralism versus particularism. The powerful position of Central Canada shows the Canadian predicament similar to the German, and what became the actual functioning nationalism was "based on a triple alliance of the Federal government, the Conservative Party, and big business interests."  

Macdonald's failure to prevent the fiasco of the Riel Rebellions reflected not only his personal bigotry against native elements he obviously considered inferior, but exemplified as well the extent of his so-called Canadian "nationalism". In fact, the overextension of Central Canada as creative of what became in the nineteenth century the func-

31 Mommsen, Stein Ranke Bismarck, pp. 277-78.

32 Levitt, Silent Surrender, p. 51.
tioning Canadian nationalism is reminiscent of the superciliousness of the Prussian military aristocracy, and the deeply held presumption that these classes constituted the "real" Germany.

Melville Watkins sees the 'fact' that Canada imitated the 'American system' of national development, and hence could not have been innovative in its National Policy, a prima facie case. But he also notes that by 1878 the "drift of the world economy toward protection . . . was substantially based on an appeal to American prosperity."33 Such an argument is valid, though, in the case of the German national policies too, and examples of contemporary appeals to American prosperity as arguments for German protection were about as numerous as Bismarck's speeches.

The question arises whether, given the contexts and goals of the age, there existed any more obvious practical alternative available to the two federal systems which aimed to become nations deserving of the name, i.e. by their own definition of material wealth, power, and progress, than the policies adopted by both. For Canada,

... any turn to a purely North American policy would

mean submergence in a continental complex in which Canada must continue to function as supplier of basic materials and as investment frontier for her giant neighbour. In policies which are un-American rather than anti-American, a counterpoise must be sought in closer ties with other political entities and groupings.\textsuperscript{34}

Germany too was faced with the question whether economic and political friendship are necessarily companions in foreign relations;\textsuperscript{35} the answer was negative even toward Austria. In this external regard both national policies really were national.

The exact extent of the active role of the two States in the respective economies is apparently still open to question. Aitken argues that it was the Canadian government which made the vital economic decisions;\textsuperscript{36} Fowke contended that the federal government was much more an agent of various forces.\textsuperscript{37} Even the Bismarckian Empire has been shown to be susceptible to its internal forces.\textsuperscript{38}


\textsuperscript{35} Albers, \textit{Reichstag und Aussenpolitik}, p. 10.

\textsuperscript{36} Aitken, "Defensive Expansionism," p. 103.


\textsuperscript{38} Windell, "Bismarckian Empire as a Federal State".
tire ideological debate over the role of the state and its relationship to the nation is perhaps more familiar in its German context, passing through Kant, Hegel, and Treitschke from pure idealism to a compromise with practical reality, and is hence often kept at a distance for the sheer complexity of its idealism. But Canadians too grappled with the question of "necessities of state", and the relationship of morality to the state. The Liberals "failed to come to grips" with this very problem in the face of the Pacific Scandal in 1873 and, ironically parallel to the fate of the National Liberals in Germany, found their ideological demise behind the next political challenge. In the 1880s toying with Unrestricted Reciprocity, and even Commercial Union, the Liberals eventually began to reckon with the presence of the National Policy, for better or for worse.

By the end of the 1880s, "the long severe depression killed off whatever tendencies the average Canadian may have had to play with general political ideas." It might perhaps be observed that the convolution during the 1870s


of statism and paternalism with the promised furtherance of material interests was sufficient to suppress, or at least divert, the usual expressions of dissent. Both Macdonald and Bismarck were particularly skillful at the diversion of public attention from the larger implications of issues to the more mundane results of the immediate moment. In Germany there was after 1873 no more talk of "Greater" or "Lesser" Germany; now the talk was of protective tariffs or free trade, for or against the right of the state to intervene in matters concerning the social order, and the interests of specific groups and classes.\textsuperscript{41}

For reasons apparently political as well as practical, the theory of protectionism on an academic level was developed from the experience, i.e. after the fact rather than vice versa. Developments which followed from Bismarck's tariffs provided the basis for the systematized theory of modern protective tariffs which evolved at the end of the 1880s.\textsuperscript{42} In Canada the ground had been fertile during the 1870s for the growth of a distinctly Canadian

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protectionist economies, but no List or Carey appeared:

Canadians were convinced that any use of economic science as a guide to policy would require compliance with doctrinaire laissez faire and subordination of long-run economic, social, and political goals to the short-run allocation of resources. Legislators were unwilling to subject their policies of tariff protection, railway subsidy, and western land disposal to searching analysis because they feared the examination of means would lead to condemnation of ends. . . . Not until the 1890's when the National Policy had become firmly established did fear and suspicion diminish enough for economics to resume a stunted growth.43

At least, though, the theory, which is a generalization mainly of the German experience, provides assurance that Canadians were thinking along lines apparently provided by the times in which they lived. Similarities in the German and Canadian arguments, both for and against the protective tariffs, have been pointed out, particularly from the Reichstag and House of Commons debates.

National policy in Canada and Germany was a gamble upon the national future. Its conservative proponents were willing to stake the status quo, to allow a possible redistribution of privilege which might leave some suffering losses, with the view that this was justifiable in the long run for the national good. It was a gamble for success, and the rhetoric of national greatness convinced even the potential losers that the chance was worth taking. The point

43 Goodwin, Canadian Economic Thought, p. 203.
is that in the rhetoric of the day material expansion was the measure of national power and success; to have denied the former would have been to deny the reasons for having federated at all. The arguments revolve around one another in the symbiosis shared by national unification and the ideology of material progress, and industrialism provided the catalyst.

Even Bismarck wished not to eliminate industrialism as a force, but to harness it to be the national component it was, and thus prevent it from driving the future of the nation in a direction which he felt Germany was not destined to take. Germany's past, he felt, had not to be eliminated either, but to be compromised in a manner which would meet the demands of reality while preserving what he saw as the character of the German nation.

Macdonald saw his task as well to meet the demands of the realities of the age, in order for Canada to survive as the nation he believed it could become. More than compromising with any agrarian past, for Canada had relatively little past to be concerned with, at least in the sense that Canadian society as a whole had not evolved out of any feudal past:

It is legitimate to point out that Canada is not a feudal (tory) fragment but a bourgeois (liberal) fragment touched with toryism. It is not legitimate to boil the tory touch away to nothing. . . . 'A substantial part of the whole spectrum of European . . . philosophy seemed to slip outside the American perspective.' But it reappeared in Canada. . . . One
tory torch in English Canada . . . is the far greater willingness of English Canadian political and business elites to use the power of the state for the purpose of developing and controlling the economy . . . 44

Canadian progress to the level of its full potential meant the reconciliation of the agrarian future of the west with the developing industrial and commercial east.

A defender of Macdonald says that, while the three policies within the National Policy went far beyond the constitutional framework of government, internal security, and justice, these measures to attain political sovereignty for the Canadian national entity were nevertheless always "within limits no more restrictive than necessarily applicable to [his] economy . . ." 45 Critics of Bismarck, on the other hand, have not been hesitant to accuse him of attempting to use tariffs as a step toward complete control. 46

In both ideological frameworks, the compatibility of agriculture, commerce, and industry, of past and future, was an assumption, an unproven premise upon which hung the entire argument for the national existence. Validity of arguments, though, means little in practice if the premises


45 Aitken, "Defensive Expansionism," p. 103.

are false; only the future had the power to prove the soundness of these arguments. National policy, then, was a gamble to control the future of the nation in terms understood by all Western industrial(izing) nations, and the protective tariffs of 1879 were the particular response of two federal entities to collateral versions of the three-faceted problem of national unity, material progress, and political power. The question is not why Canada turned to protection, "but why protection came so late"; 47 not why Bismarck broke with the National Liberals, but why the breach had been so long delayed. 48 The presence of the political challenge of the 1870s makes, not only of the questions, but of the answer, two sides of the same coin.

Neither in Canada nor in Germany was the protective tariff of 1879, or the larger "national policy" it represented, a conclusive answer to the question of what the nation was to be. Critics in both countries have contended that it has been despite, 49 and not because of, these "na-


48 Taylor, Bismarck: Man and Statesman, p. 162.

49 See Dales, "Historical and Theoretical Comments"; see also Brentano, Die Deutschen Getreidezölle, p. 73.
tional policies" that Canada and Germany have actually survived as nations. And both, curiously enough have a history of attempting to resolve their identity crises.

It is perhaps significant that in the writing of both national histories, the decision of 1879 stands out as a watershed, a declaration of existence, a prerequisite for the outward-looking imperialism which followed. I.N. Lambi sees the importance of the events of 1878-79 for Germany to 1918 as almost equal to those of 1871. A subject of prolific writings and the object of much thought, the decision of 1879 occupies little if any space in Bismarck's own memoirs. The world of the 1880s had changed.

It seems that the scope of this study reaches its limitations just where the nature of the problem is established. The effects of the decision of 1879 upon the development of the nation, the subsequent difficulties encountered, the evolution of the national self-definition, the responses of historians to variations of the national vision, all of these questions provide a framework for future study. A consideration of the Italian situation might provide a measure of the effects of the ideological and political factors, while holding constant the factor of natio-

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nal unity. What Canadians ought to realize, and perhaps take comfort in, is the fact that in the dilemmas of our existence as a nation, and in the attempt to resolve these, we are not alone.
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VITA AUCTORIS

FAMILY:


EDUCATION:

Attended St. Angela's Separate School in Windsor, Ontario from September 1958 to June 1965.

Received High School education at St. Mary's Academy in Windsor, Ontario.

Completed Grade 13 in June 1970.

Began undergraduate work at The University of Windsor in September 1970.

Received Bachelor of Arts degree in Honours History in April 1974.

Admitted to the Faculty of Graduate Studies at The University of Windsor, began work toward the degree of Master of Arts in the Department of History in September 1974.